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IN THE

Supreme Court of the United States

OCTOBER TERM, 1935. NOS. 767 AND 768.

DUPLATE CORPORATION and PITTSBURGH PLATE GLASS COMPANY, Petitioners,

v.

TRIPLEX SAFETY GLASS COMPANY OF NORTH AMERICA, Respondent.

BRIEF FOR PETITIONERS.

On Writs of Certiorari to the United States Circuit Court of Appeals for the Third Circuit.

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On Writs of Certiorari to the United States Circuit Court of Appeals for the Third Circuit.

Opinions of the Courts Below.

The opinion of the Circuit Court of Appeals (R. 911) is reported in 81 F. (2d) 352. The opinion of the District Court of the United States for the Western District of Pennsylvania (R. 871) is reported in 10 F. Supp. 420.

Jurisdiction.

The orders of the Circuit Court of Appeals modifying the decree of the District Court were entered December 12, 1935 (R. 923-924). The jurisdiction of this Court is invoked under Section 240(a) of the Judicial Code, as amended by Act of Congress, February 13, 1925, c. 229, 43 Stat. 938. The statute, the construction of which is involved, is Section 4921 of the Revised Statutes of the United States, as amended, governing patent accounting. It is hereinafter quoted at page 76.

Statement of the Case.

For clarity, the petitioners, which were defendants below, will be referred to as the defendants and the respondent, which was plaintiff below, as the plaintiff throughout this brief.

This is a patent accounting case arising from the infringement of patent number 1,182,739[1] covering a process for making, and a commodity known as, laminated glass (popularly referred to as "safety" or "non-shatterable" glass), a commodity that will crack but not shatter. It is a composite structure consisting of two sheets of glass arranged face to face and having sandwiched between them a sheet of pyralin (celluloid), the pyralin being cemented on both sides to the opposite glass sheets by means of a very thin film of gelatin (Master's Report, R. 793), the structure in this form being commonly referred to as a sandwich. The heat and pressure necessary to adhesion are applied by putting the sandwiches on racks in an autoclave, which is

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[1] The patent in question is set forth in full at page 175 of the Circuit Court of Appeals' record in the infringement, as distinguished from the accounting, litigation, which record has been submitted in this case and filed with the Clerk of this Court as an original exhibit. Claim 12 of this patent, upon which infringement was predicated, reads as follows:

> "12. As a new article of manufacture, a sheet of celluloid faced on both sides and in the order named by sheets of gelatin and glass, all rigidly and autogeneously united together, and the gelatin being substantially free from contained moisture, as described."

Ten of the preceding claims of the patent call for a "volatile, hydroscopic liquid" and the third claim speaks specifically of "ethyl alcohol" as a dehydrating agent.

simply a steel boiler of large size. When the racks have been filled with sandwiches, the door is sealed and oil (formerly water) pumped into the autoclave under pressure and heated by steam until there is attained a temperature of about 250° and a pressure of about 150 pounds per square inch (Master's Report, R. 806). When this process is completed, the glass and pyralin are firmly united and in appearance resemble a single sheet of glass.

Infringement by Duplate Corporation was found to result from the use of gelatin "substantially free from contained moisture" for the purpose of cementing the pyralin to the glass: 42 F. (2d) 737. There followed a decree of infringement containing a reference of the case to a special master for the purpose of stating an account of the plaintiff's damages and the Duplate Corporation's profits from the infringement (R. 26), which decree was affirmed by the Circuit Court of Appeals for the Third Circuit: 42 F. (2d) 739. Following a supplemental bill of complaint, a supplemental consent decree was subsequently entered (R. 28), joining the Pittsburgh Plate Glass Company as a party defendant, making it responsible for any decree entered against Duplate Corporation and calling upon it for a similar accounting. Duplate Corporation was owned in equal shares by Pittsburgh Plate Glass Company and Dupont Viscoloid Company (Master's Report, R. 793).

The patent which is the basis of the accounting was issued May 9, 1916 (R. 793), and expired May 9, 1933. The plaintiff made its initial attempt at exploitation of this patent in 1926 (Master's Report, R. 825; 42 F. (2d) 739, 740-741).

The accounting covers the period from January 1, 1928, to May 30, 1930, the date on which infringement ceased (Master's Report, R. 827). The amount of infringing laminated glass manufactured by Duplate

Corporation was 4,141,207 square feet[1] (R. 830). There was no unsold inventory at the end of the accounting period (R. 875)[2]. It was properly assumed by the Master (R. 793, 821-826, 836) that the only commercial use of consequence for laminated glass has been as windshields and body lights for automobiles.

The Master found, and the District Court affirmed the finding, that the defendants, during the accounting period, operated at a net loss in the manufacture and sale of the infringing product of $276,857.47 and that the plaintiff suffered a loss of $2,807.89 due to price reductions forced upon it by the price policy of the defendants (19th and 22d findings, R. 830).

The Master recommended (R. 830, 832) and the District Court decreed (R. 879) the imposition of general damages, measured by a so-called reasonable royalty, in the sum of $414,120.70. The District Court added interest aggregating $101,459.57 on the damages so awarded, computed from the end of the accounting period (R. 879), which was over three and one-half years before the Master's Report (R. 791). Cross-

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[1] The infringing product was made out of one-eighth-inch plate glass. The total amount of one-eighth-inch plate glass manufactured by Pittsburgh Plate Glass Company during the accounting period was approximately 25,000,000 square feet (Higgins, R. 376), in addition to much larger quantities of glass of other thicknesses (McHenry, R. 663-664), of which approximately 10,000,000 square feet of the one-eighth-inch plate glass were sold to Duplate Corporation (Master's Report, R. 884 B).

[2] This was because the commodity was being manufactured throughout the accounting period to meet the varying requirements of orders then on the books, the production representing, substantially, the sales (Sherts, R. 405).

appeals were taken to the Circuit Court of Appeals for the Third Circuit, which affirmed the decree on the defendants' appeal, but reversed it on that of the plaintiff, with instructions to the District Court to revise its decree in accordance with numerous asserted principles of patent accounting set forth in the reversing opinion (R. 911-922) and stated in specifications of error numbered one to seven (*infra,* pp. 7-8). Orders, appropriate to this end, were entered (R. 923-924). It is these asserted principles, hereinafter detailed, which form the basis of this review.

The case was argued before the Circuit Court of Appeals on January 2, 1936, and the opinion handed down on December 12 of the same year.

There is no dispute as to the facts on which the Circuit Court of Appeals made its rulings culminating in its orders for a revised decree. The court did not question the findings of fact made by the Master, which had also been approved by the District Court, the latter being in such complete agreement with the Master on the facts that it confirmed the entire report absolutely (R. 878, 879) and adopted the Master's findings of fact, as well as its own opinion, as the findings required of the District Court by Equity Rule No. 70½ (R. 880). The District Court further said in its opinion (R. 873):

> "We go next to the Master's computation of profits and losses. There seems to be no dispute in the case over the correctness of the computation of the amounts; there is no dispute over the correctness of the figures. The dispute is over the question of whether items deducted are properly and legally allowable as deductions from the sale-price, in order to determine profits."

The Circuit Court of Appeals apparently adopted the same view, declaring (R. 921):

> "We are inclined to give great weight to the master's fact findings. Armstrong v. Belding Bros. Co., 297 F. 728 (certiorari denied 265 U. S. 585). As was said by Judge Stone in Levin Bros. v. Davis Mfg. Co., 72 F. (2d) 163, 165, 'Determinations of fact matters by a master which are confirmed by the trial court should not be overthrown on appeal except on the clearest showing of mistake . . . .'"

The Circuit Court of Appeals undertook no such showing and made no assertion of mistake with respect to any of the findings of fact.

The facts being undisputed, **this case can be understood and decided in its entirety by an examination of the Master's Report (R. 791) and the opinions of the District Court (R. 871) and the Circuit Court of Appeals (R. 911) without reference to the testimony**[1] unless one seeks corroboration or elaboration of the findings of fact[2].

The good faith of the defendants in manufacturing and selling the product which was ultimately held to be an infringing article has been independently sustained by the findings of the Master (R. 793-794, 828, 830), the District Court (R. 873), and the Circuit Court of Appeals (R. 912-913). In the District Court, the same Judge who had decided the infringement issue (Judge Schoonmaker) held that the infringement was in good faith.

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[1] Agreeably to Equity Rule 75(b), portions of the evidence were excluded in the preparation of the printed record, and the balance was printed in the form in which it is found in the record pursuant to stipulation of the parties and order of court (R. 906, 910).

[2] In this brief, such corroboration or elaboration is confined to footnotes.

Specification of Errors.

1. The Circuit Court of Appeals erred in ruling that, in a patent accounting, an infringer who has acted in good faith cannot treat, as an item of expense, wastage represented by factory operating losses and rejections and returns of defective laminated glass, which was unavoidably concomitant with the manufacture of the good finished product, for which the infringer was accounting to the patentee (R. 915).

2. The Circuit Court of Appeals erred in ruling that an infringer who has acted in good faith must, in a patent accounting, take credit for a non-infringing and otherwise marketable commodity (plate glass) manufactured by one of the accountants and subsequently used by the other in making the infringing product, not at its market value when appropriated for the infringing use but only at its cost of manufacture (R. 921; Assignments 6 and 7, R. 888, 891).

2a. The Circuit Court of Appeals erred in ruling that in the determination of the cost of this non-infringing commodity (plate glass), the accountant may not charge into its account as an item of expense or allowance, the saving effected in the manufacture of this non-infringing commodity by process patents owned by the accountant, it having been found as a fact that the saving thus effected was largely responsible for a price which enabled the infringing product to be sold in competition with other articles (R. 915-916).

3. The Circuit Court of Appeals erred in ruling that in a patent accounting where costs of specific sales cannot be found because of the continuous nature of the infringement, the accountant must compute what are termed profits on specific sales by deducting average

costs of manufacture from specific selling prices, despite an accepted finding that average cost did not fairly reflect actual or specific costs in this case (R. 913-914).

4. The Circuit Court of Appeals erred in ruling that general damages, measured by a so-called reasonable royalty, may be awarded, in a patent accounting, in the absence of proof that the plaintiff's actual losses cannot be computed and in the face of a refusal of the plaintiff to produce its records so that such a computation of its losses might be undertaken by the accounting defendants (R. 919-921; Assignment 4, R. 887).

5. The Circuit Court of Appeals erred in ruling that interest on general damages may be awarded against an infringer who has acted in good faith, not merely from the date of the liquidation of the damages, but from the end of the infringing period (R. 922; Assignment 10, R. 894).

6. The Circuit Court of Appeals erred in ruling that plaintiff is entitled to an award of ten cents per square foot, aggregating $414,120.70, as royalty on the infringing laminated glass manufactured by defendant, Duplate Corporation, during the accounting period in infringement of the patent in suit (R. 921; Assignments 2, 3 and 9, R. 883, 886, 893).

7. The Circuit Court of Appeals erred in ruling that defendants should not be permitted to examine the books and records of the plaintiff in order to show, in connection with plaintiff's manufacture and sale of safety glass, (1) whether a reasonable royalty should be awarded and, if so, how much, inasmuch as the examination would have disclosed plaintiff's volume of business, its costs, profits, losses, rejections, returns, factory operating experience, damages from loss of sales, royalties and operating experience under its licenses to the Ford Motor Company and the Johnston Glass Com-

pany, (2) whether the plaintiff suffered damage in the competition of Duplate Corporation and, if so, its extent, and (3) the propriety of Duplate Corporation's items of expense which are challenged by the plaintiff, inasmuch as it would show that the plaintiff had comparable losses (R. 920-921; Assignment 4, R. 887).

8. The Circuit Court of Appeals erred in ruling as follows (R. 922):

> "On the plaintiff's appeal, in so far as the decree of the District Court is in accord with the rulings hereinabove set forth, it is affirmed, and in so far as we have found error in the court's rulings, the decree is reversed, with directions to modify the decree in accordance with this opinion. In so far as error is assigned upon the defendant's appeal, the decree is affirmed."

9. The Circuit Court of Appeals erred in entering, in each appeal, the following order (R. 923-924):

> "This cause came on to be heard on the transcript of record from the District Court of the United States for the Western District of Pennsylvania and was argued by counsel.
>
> "On consideration whereof, it is now here ordered, adjudged, and decreed by this Court that the decree of the said District Court in this cause be, and the same is hereby affirmed, with costs, except in so far (1) as it refers to the defendants' method of accounting, (2) as it allows credit for rejects and returns and pyralin losses, and (3) as it allows credit for the use of the patents involved in the 'continuous process.' As to these three items, the said District Court is directed to order a restatement of defendants' account in accordance with the terms of the opinion of this Court."

ARGUMENT.

Summary.

The purpose of a patent accounting is to make restitution to a patentee, not to penalize an infringer,[1] or even necessarily to take from him profits indirectly resulting from the infringement, assuming that the infringement was in good faith, as here. There are two primary measures of restitution available in equity and defined in Section 4921 of the Revised Statutes (*infra*, p. 76), the first being the profits made by the infringer from the manufacture, use, or sale of the infringing commodity[2], and the second being the damages actually sustained by the plaintiff either as a result of lost sales or sales made at a reduced price due to the competition of the infringer, the patentee to have the benefit of the measure most favorable to him.[3] If such profits or damages are not susceptible of

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[1] Unless the infringement was in bad faith, in which case an award may be increased as much as threefold, as a punitive measure: Revised Statutes, §§4921, 4919.

[2] It was said in *Leman v. Krentler-Arnold Co.*, 284 U. S. 448, 456 (opinion by Mr. Chief Justice Hughes), "In a suit in equity against an infringer, profits are recoverable not by way of punishment but to insure full compensation to the party injured." An award based upon an infringer's profits is made as "an equivalent or a substitute for legal damages": *Tilghman v. Proctor*, 125 U. S. 136, 148, (opinion by Mr. Justice Gray).

[3] It was said in *Root v. Railway Co.*, 105 U. S. 189, 212 (opinion by Mr. Justice Matthews) that "as the recovery is limited by the act to the actual damages, it is manifest that the recovery of damages and profits

determination with reasonable certainty, the court may award, as a **third** and alternative measure of restitution, what the statute characterizes as "a reasonable sum as profits or general damages". Such general damages have been popularly christened a "reasonable royalty" because of the tendency to use the measure suggested by the label as a means of estimating general damages.

The application of the foregoing three tests to the case at bar has resulted in the findings by the Master and District Court (R. 830, 880): (1) that the defendants lost $276,857.47 as a result of the infringement, (2) that the plaintiff lost $2,807.89 because of sales made at a reduced price, but that there was no adequate showing of any loss as a result of sales taken from the plaintiff by the defendants, and (3) that general damages should be awarded at the rate of ten cents a square foot of infringing commodity sold, aggregating $414,120.70.

The defendants have been deprived of their right to show the complete and exact damages of the plaintiff by the refusal of the plaintiff, sustained by the Master and the lower courts, to permit an examination of its books. There remains for consideration the proper measurement of an award based either on the defendants' profits, or on general damages, and defendants' argument will be grouped under those two headings.

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is not intended to be doubled" and that, therefore, an award measured by an infringer's profits may be supplemented if, and only to the extent that, a patentee's actual damages exceed such profits. Accord: *Tilghman v. Proctor, supra,* 125 U. S. 136, 148-149. Stated another way, the patentee "is not entitled to a duplication, but . . . . he is entitled to make a choice:" *Christensen v. National Brake & Elec. Co.,* 10 F. (2d) 856, 867 (E. D., Wis.).

Defendants' Profits or Losses. In the calculation of defendants' profits or losses, argument focuses on the following issues: The Master and the District Court found that the infringement was carried on at a loss to the defendants of $276,857.47. (1) The Circuit Court of Appeals has held that this finding should be corrected by disallowing as cost items (a) $1,477,364.84, representing wastage in the form of factory operating losses and rejections and returns of defective glass, (b) $219,036.93, representing wastage of pyralin, and (c) $1,108,692.73, representing savings effected in the manufacture of plate glass by patents owned by Pittsburgh Plate Glass company, one of the defendants. **The effect of these rulings is to turn a large loss into a tremendous alleged profit.** (2) The defendants not only contend that these rulings of the Circuit Court of Appeals were erroneous, but that the loss sustained by the defendants in the manufacture of the infringing commodity was in reality $713,036.29 greater than that found by the District Court and the Master, this figure representing the difference between the manufacturer's cost of plate glass (which was the base used in the Master's accounting) and the market price of that plate glass, (which was the amount actually paid for it by Duplate Corporation). (3) There is also in controversy the method by which the defendants' account of their profits or losses should be stated. The Master and the District Court took the position that inasmuch as it was impossible to find the actual cost of manufacturing specific orders, due to the continuous nature of the infringement, and that average costs did not accurately reflect specific costs, the net profit or loss should be computed by treating the infringement as one continuous act. The Circuit Court of Appeals, while not disagreeing with these findings, so far as concerns the facts, ruled that the form of the account should be changed and a so-

called profit determined by ascertaining the spread between the average cost of manufacture and specific prices received on each sale, this spread to be labeled "profits".

General Damages. The controversy as to a so-called reasonable royalty lies within a narrower compass. (1) The defendants contend that if the District Court and the Master, (sustained by the Circuit Court of Appeals) had not written down the defendants' losses by over $700,000 as a result of ruling that the defendants should charge themselves with plate glass at its mere manufacturing cost instead of its market value, the Master and the District Court, in all probability, would not have awarded so large a sum as general damages. (2) They further contend that had the Master or the District Court permitted them to examine the plaintiff's books and records, they would have been able to show, with much greater certainty than the plaintiff has chosen to show, exactly what, if anything, was lost by the plaintiff as a result of the infringement, and that this loss would have been shown to be so small that the Master, in good conscience, would not have recommended, or the District Court decreed, so large an award in general damages. (3) They likewise contend that, as a matter of law, general damages cannot be awarded against them at all until they have been given an opportunity to establish, with reasonable certainty, plaintiff's actual damages, if any. (4) Then there is disagreement as to the date from which interest may permissibly be awarded on general damages measured by a reasonable royalty, the lower courts in this case having allowed interest from the date of last infringement, which was some three and one-half years prior to the date of the Master's Report. The date of the report is the time from which defendants contend that interest should have been awarded.

Compressed, the issues are these:

I. Computation of defendants' alleged profits.

1. Was wastage properly disallowed as a cost item?

2. Was it proper to take plate glass into the account at cost instead of market value?

2a. Was it proper to disallow defendants a credit for the savings effected by their own patents in the manufacture of plate glass?

3. Is it proper to determine profits on the basis of the spread between an average cost and a specific selling price?

II. General damages.

1. May general damages be awarded without determining whether it is possible to ascertain a plaintiff's actual damages and the amount thereof, if any?

2. May interest be awarded from the end of the accounting period rather than from date of the Master's Report?

I.

COMPUTATION OF DEFENDANTS' ALLEGED PROFITS.

1.

Wastage: Factory Operating Losses, Rejects and Returns of Defective Glass.

The ruling. The Circuit Court of Appeals, reversing the District Court, disallowed wastage in the form of cost items aggregating $1,477,364.84 for rejects and returns of defective laminated glass and $219,036.93 for pyralin losses (R. 915). The first figure is a compilation not used by the District Court or the Master, but submitted to the Circuit Court of Appeals in the plaintiff's brief. This compilation, the arithmetic of which we do not dispute, was made by adding these five items, the following explanation of which we submit, with deference, demonstrates the error of the Circuit Court of Appeals:

[1]$538,019.87, representing the cost of labor, material (exclusive of plate glass) and other things that went into the product which was **unavoidably destroyed in the factory** in the process of manufacturing the good infringing product. This cost was allowed by the Master (Finding of Fact 12, R. 829)

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[1] The Master's 12th finding (R. 829), adopted by the District Court (R. 880), and unchallenged by the Circuit Court of Appeals was:

"12. That defendant suffered certain 'factory operating losses' in the manufacture of the infringing product, which losses, exclusive of the cost of the one-eighth-inch plate glass included therein, totalled, during the accounting period, $538,019.87."

Factory Wastage—exclusive of plate glass.

and, as shown by the "Statement of Account Per Finding of Special Master" (R. 844 A) was computed by him from defendants' Exhibit "O" (R. 1045), which sets forth the defendants' factory operating losses. From the recapitulation of these losses set forth on the first page of this Exhibit at $1,662,637.39, he deducted[1] $1,124,617.62, representing the plate glass cost included therein at the figure at which it had been charged into this Exhibit, leaving a net loss, exclusive of the cost of plate glass, totaling $538,019.87 (R. 844 A, 844 B).

$435,207.52,

representing the cost of the plate glass which went into the destroyed product referred to in the preceding item. This figure is computed by multiplying the feetage of the destroyed plate glass as found by the Master (in 1928, 1,521,665 sq. ft.; in 1929, 1,090,072 sq. ft.; and in 1930, 148,233 sq. ft.—R. 844 A) by the bare manufacturing cost thereof as contended for by plaintiff (found by the Master to be only part of the true cost, R. 844 B). Thus for 1928, 1,521,665 sq. ft. (R. 844 A) at $.15590 a sq. ft. (R. 844 B—top) is $237,227.57; for 1929, 1,090,072 sq. ft. (R. 844 A) at $.15637 a sq. ft. (R. 844 B—top) is $170,454.56; and for 1930, 148,233 sq. ft. (R. 844 A)

Factory Wastage—plate glass.

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[1] Cost of plate glass was deducted because treated separately by the Master at a lower cost.

at $.18569 a sq. ft. (R. 844 B—top) is $27,525.39, or a total for the three years of $435,207.52.

$286,041.61, representing the cost of labor, material (exclusive of plate glass) and other things that went into the defective product which was **returned by customers during the accounting period.** This cost was allowed by the Master (Finding of Fact 13, R. 829) and, as shown by "Statement of Account Per Finding of Special Master" (R. 844 A), was computed by him from plaintiff's Exhibit "9"[1], which sets forth the cost of manufacturing returned sales. From the recapitulation of these losses in Exhibit "9" at $631,280.83, he deducted[2] $345,239.22, representing the plate glass cost included therein at the figure at which it had been charged into this Exhibit, as shown by defendants' Exhibit "Z",[1] leaving a net loss, exclusive of the cost of plate glass, totalling $286,041.61 (R. 844 A, 844 B).

Wastage—returns, exclusive of plate glass cost.

$135,307.20, representing the cost of plate glass which went into the defective product referred to in the preceding item. This figure is computed by multiplying the feetage of plate glass in the laminated glass **returned by customers during the accounting period as**

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[1] Filed as an original exhibit.

[2] Cost of plate glass was deducted because treated separately by the Master at a lower cost.

Wastage—returns of plate glass.

defective as found by the Master (in 1928, 118,699 sq. ft. of laminated glass, or 237,398 sq. ft. of plate glass; in 1929, 282,411 sq. ft. of laminated glass, or 564,822 sq. ft. of plate glass; and in 1930, 26,861 sq. ft. of laminated glass, or 53,722 sq. ft. of plate glass—R. 844 A) by the bare manufacturing cost thereof as contended for by plaintiff (found by the Master to be only part of the true cost, R. 844 B). Thus for 1928, 237,398 sq. ft. of plate glass (R. 844 A) at $.15590 a sq. ft. (R. 844 B—top) is $37,010.34; for 1929, 564,822 sq. ft. of plate glass (R. 844 A) at $.15637 a sq. ft. (R. 844 B—top) is $88,321.22; and for 1930, 53,722 sq. ft. of plate glass (R. 844 A) at $.18569 a sq. ft. (R. 844 B—top) is $9,975.64, or a total for the three years of $135,307.20.

$82,788.64, Wastage—returns after accounting period.

representing the cost of labor, material (including plate glass), and other things that went into the product which was sold during the accounting period, but subsequently returned by customers as defective. This cost was allowed by the Master (Finding of Fact 14, R. 829) and again appears in his account at the bottom of R. 844 B.

$1,477,364.84

The first and second items, amounting to $538,019.87 and $435,207.57, respectively, comprise the cost of wastage within the factory and constitute sixty-seven per

cent. of the wastage item of $1,477,364.84, disallowed by the Circuit Court of Appeals.

Plaintiff's present position that these two items of $538,019.87 and $435,207.57 represent rejections of finished laminated glass is not only contrary to the record but is also contrary to plaintiff's position taken before the Special Master. The plate glass was delivered by the Pittsburgh Plate Glass Company to the Duplate Corporation at the cutting department of the latter where it was cut into the sizes called for by the various orders and then transported[1] to the assembling department where the sandwiches were assembled and were then taken into the pressing department where they were held together with adhesive paper (R. 805)[2] until they were pressed. Prior to pressing, the sandwiches were not even in the form of laminated glass. After pressing, the glass was taken to the edging department where the sharp edges were rounded (R. 807) and only after this edging was the product finished laminated glass. The Special Master in his report (R. 804-807) clearly shows how this manufacturing operation was conducted. Speaking of the transportation of the sheets of plate glass from the cutting department to the assembling department, the Master says that in this transportation the jostling caused breakage and dirt and sand often settled between the sheets, causing losses, and that large losses were suffered by the chipping of the corners. With respect to these losses the Master proceeds (R. 805):

> "Counsel for the plaintiffs endeavored to indicate that losses of this nature were in excess of those which might reasonably be expected and were

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[1] This was by hand truck and for a distance of one-third of a mile (Sherts, R. 322).

[2] Elaborated, Sherts, R. 394.

> an indication of a wanton carelessness on the part of the defendants. With this contention, however, the Master is unable to agree".

The particular losses which the Master is considering at this point, and which plaintiff was then objecting to because plaintiff claimed they were so large as to indicate wanton carelessness, occurred before the plate glass was even placed in the sandwiches. The losses in the assembling department and in the pressing department arose before the product had even assumed the form of laminated glass and the losses in the edging department arose before it was a finished product. How, then, can plaintiff now be heard to say that the above mentioned items of $538,019.87 and $435,207.57 represented rejections of finished laminated glass? It is obvious that these two items were, as the Master and District Court found them to be, factory operating losses and that a large part of them occurred before the glass was in the form of laminated glass, much less in finished form.[1] The Master finds (R. 806) that the larger proportion of factory operating losses were suffered in the pressing department.

By making the distinction between factory operating losses which occurred prior to the completion of a finished article and losses which occurred after the article was finished (either from defects which appeared upon further inspection or from returns by customers because of defective manufacture), we do not mean that the losses which occurred prior to completion ought to be allowed as a cost item, while those which occurred after completion should be disallowed. We submit that they stand on exactly the same footing and that all should be allowed if they occurred concomitantly with the manufacture of the good finished commodity

[1] This may be seen by an examination of Exhibit "O" (R. 1045).

and as a necessary incident to the manufacture and sale of the infringing article for which the defendants are accounting. The fact that some of the laminated glass was found to be defective before it left the factory and some of it was found to be defective only after it reached the customer,[1] makes no difference in principle. Our purpose in demonstrating that most of the losses occurred within the factory and before the article was completed is to refute the assertion made by the plaintiff in the Circuit Court of Appeals that all of the losses making up the items of $1,477,364.84 and $219,036.93 (*supra*, pp. 15-18), respectively, were in rejections of finished product or in returns by customers.[2] Plaintiff's position, both as to the losses within the factory and as to the defective laminated glass rejected by customers, is taken in an effort to force this case into a category of

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[1] Laminated glass sold by the defendants was guaranteed for two years from February, 1928, to January 1, 1930, and for fifteen months from January 1st on (McHenry, R. 616).

[2] These returns were clearly identified, month by month, with specific sales to named customers, on which sales there has been an accounting of profits to the plaintiff. Returns received during the accounting period are thus identified in Exhibit "Z" (filed as an original exhibit), and the aggregate of these returns, as found by the Master on the eighth line of his statement of account at R. 844 A, is taken from page A of Exhibit "Z", as this line of the account states. Returns of infringing article manufactured during the period of infringement, but returned subsequent to that date are set forth in similar detail in Exhibit "W" (unprinted), concerning which the parties hereto have stipulated, in connection with a summary of the exhibit (R. 1032) as follows: "The correctness of the data appearing in these exhibits is not challenged, the sole issue between the parties being a question of law as to whether either or both are proper credits."

cases in which it does not belong, that is, cases in which, against the profits on profit making sales, an infringer seeks to set off the cost of an unsold inventory of finished articles or losses on isolated sales of such articles. The District Court properly held that there was no unsold inventory in the case at bar (*supra*, p. 4 and *infra*, p. 24) and the Circuit Court of Appeals did not challenge this holding.

The cost of pyralin, likewise a plain wastage item, was disallowed by the Circuit Court of Appeals (R. 915) in the amount of $219,036.93, as we have stated, *supra*, page 15. This item represented pyralin loss which took place within the factory, in the cutting, transportation or assembling departments, above mentioned, but before the pyralin was assembled between sheets of plate glass into a so-called sandwich, the Master explaining it to be "losses in pyralin prior to assembly up to May, 1929" (R. 815) and therefore a proper allowance (see Master's Report, R. 815-816, 829—Finding 18). The District Court allowed it as a cost item on the finding that "the pyralin that was used in glass that did not turn out perfectly was as much a cost of production as any other part of the factory operation" (R. 875). The plaintiff has conceded the causal connection between this pyralin loss and the manufacture of the infringing laminated glass, for it is stated in the plaintiff's 31st assignment of error (R. 904) that this pyralin was "used to make defective laminated glass." The Circuit Court of Appeals, while not disturbing the aforementioned findings of fact, denied that the cost of this pyralin wastage was a proper allowance, following its erroneous theory of rejecting wastage.

The dispute as to the allowance of such wastage as an item of cost is one of law, the District Court

having found (R. 873), and the Circuit Court of Appeals apparently agreeing (R. 915, 921), that:

> "We next go to the Master's computation of profits and losses. There seems to be no dispute in the case over the correctness of the computation of the amounts; there is no dispute over the correctness of the figures. The dispute is over the question of whether items deducted are properly and legally allowable as deductions from the sale-price in order to determine profits" (R. 873).

The legal propriety of the allowance of this wastage as an item of manufacturing cost plainly depends on its relation to the manufacture of the good finished product for which the petitioners are accounting. Its relation has been found by the Master to be as follows (R. 808-809):

> "The records of the defendant as to 'Factory Operating Losses' above mentioned appear to be full and complete, and the testimony of Messrs. Clause and Sherts as to the details of the various operations have convinced the Master that **the large operating losses which occurred were unavoidably concomitant with the manufacture of the good finished product** and were necessary elements in the cost of the production of the good product and are, therefore, allowed as claimed" (black face type ours).

These facts were summarized by the Master in his formal finding (R. 829):

> "11. That the hazards connected with the manufacture of laminated glass were such that a considerable amount of the infringing product had to be rejected or 'scrapped' in order that a certain volume of salable specimens might be produced."

Not only were the Master's Report and his findings confirmed and adopted by the District Court (R. 879, 880), but that court similarly found (R. 874-875):

> "(b) **Factory-Operating Losses—(Rejects and Returns).** The master has found that a considerable amount of laminated glass had to be turned out only to be rejected or returned **in order that a certain volume of perfect specimens might be sold,** and has allowed these rejects and returns as operating losses **unavoidably connected** with the manufacture of good finished product, and as **necessary elements in the cost** of production of a good product. We agree with the master in his conclusion, and in so doing, we are again following Judge Thomson in the conclusion announced by him in MacBeth Evans Glass Co. v. L. E. Smith, 21 Fed. (2) 553, where Judge Thomson held in a glass-lens case that credit must be given as a part of the cost of manufacture, for defective-lenses, loss from bad debts, discounts, and allowances reasonably incident to the business in order that the defendants be charged only with the profits actually made.
>
> "Cases cited for the plaintiff in opposition to these cases we do not think are controlling, because they hold merely that an unsold inventory[1] at the end of the accounting period cannot be taken as a loss in the manufacturing loss in accounting. In a case where there is a series of isolated infringements, loss-producing sales cannot be deducted from profits in the accounting on the sales where there were profits made; and losses on experimental products cannot be deducted in accounting. We

[1] The Court's ruling that cases dealing with unsold inventory are inapplicable in this case is supported by the testimony of Sherts (R. 404-406).

recoghize the correctness of the rule in these cases; but we think they have no application to the facts of the instant case, where **the defendants are only seeking credit for losses actually accruing, while the infringing product is being manufactured in the carrying on of a continuous business"** (black face type ours).

The Circuit Court of Appeals did not question the foregoing fact findings.

The Master found that salvage was unimportant and satisfactorily accounted for (Master's Report, R. 809-810)[1], and it was never an issue.

The error of the ruling. If the cost of the product destroyed in the course of manufacture "but for which the good ones could not have been produced" or returned "in order that a certain volume of perfect specimens might be sold" (Master's Report, R. 808) is not to be allowed as an element of cost to an infringer who has acted in good faith, it is idle to say that a patentee is recovering merely an infringer's profits. The accountant is being penalized far beyond its profits, which in this case were non-existent. The necessity of putting one

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[1] All defective laminated glass—**both that rejected in the factory and that rejected by customers**—was thrown on the dump, except the small portion that the defendants were able to salvage, for which salvage credit was given in defendants' account (Sherts, R. 351-352, 399-402). The one-eighth-inch plate glass salvage, for which credit was given in Exhibit "R" under the caption "Received from Reclaiming Department," amounted to 235,675 feet in 1928, 386,178 feet in 1929, and 63,302 feet in the first five months of 1930 (R. 1027) aggregating 685,155 feet. The salvage on laminated glass was likewise credited (Datz, R. 621).

hundred sandwiches into an autoclave in order to produce eighty good ones is not different in principle from that of putting a charge into a blast furnace or a batch into a glass furnace in order that a comparable percentage of the raw material may find its way into the finished product, while the residue is consumed by the heat and goes up in smoke.

The matter cannot be better stated than in the report of the Master (R. 808):

> "It was also established by the evidence that even the Ford Motor Company, in making laminated glass under its agreement with the plaintiff, was required to produce five million windshields in order to obtain four million good ones,—and it appears as self-evident to the Master that in the case of Ford, as in the case at bar, the cost of producing the good ones necessarily included the cost of producing the million bad ones, but for which the good ones could not have been produced."

The authorities. The decision of the Circuit Court of Appeals as to factory operating losses, rejects and returns necessarily incident to the sales on which profits are sought is a departure from the ruling of this Court in *Manufacturing Co. v. Cowing,* 105 U. S. 253, 257 (opinion by Mr. Chief Justice Waite), where a decree was reversed, among other reasons, because the lower court had allowed the accountant "nothing for wastage." The Circuit Court of Appeals has departed from the fundamental principle of patent accounting decreed in *Rubber Co. v. Goodyear,* 9 Wall. (U. S.) 788, 804 (opinion by Mr. Justice Swayne), where it was held that "The calculation is to be made as a manufacturer calculates the profits of his business," this court going on to explain that the cost of materials, the expenses of manufacture, and other necessary expenses should be treated as items of cost in computing profits.

The decision of the Circuit Court of Appeals on this issue is in conflict with a decision of the Circuit Court of Appeals for the Second Circuit, in which it has been ruled that money expended in reimbursement to customers for returned defective product is a proper item of cost even though the product was not returned until after the period of infringement: *Permutit Co. v. Refinite Co.*, 27 F. (2d) 695, 697.

The decision of the Circuit Court of Appeals on this issue is in conflict with decisions of the Circuit Courts of Appeals for the Second, Sixth, Seventh, and Eighth Circuits, in each of which the court has ruled that in an accounting for profits there should be deducted from gross receipts every item of expense incurred in good faith as an incident[1] to the manufacture or sale of the product being accounted for:

Stromberg Motor Devices Co. v. Zenith-Detroit Corp., 73 F. (2d) 62, 64-65 (C. C. A., 2d Cir.). Interest on invested capital was allowed "as a business expense" (p. 64), and in allowing the deduction of taxes, certain salaries, and royalty payments, the court proceeded on the principle that "The actual profits to the defendant as a result of the infringement were by so much reduced, and, as the plaintiff is entitled only to these actual profits, the credit is allowed" (p. 65).

Levin Bros. v. Davis Mfg. Co., 72 F. (2d) 163, 165-166 (C. C. A., 8th Cir.). The court applied the following principles in the allocation of overhead:

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[1] Wastage was not involved in the decisions, but the general principle sustains the allowance of wastage as an item of expense.

"The patent law gives the right to recover all profits from an infringement. 'Profit,' as so used, is no mysterious phrase. It means simply all financial gains. Such gains are the difference between expenditures made to produce and sell the infringing articles and the receipts therefrom. . . . Always, however, the task is to see that the patentee recover every dollar of advantage realized by the infringer from the infringement and no more (p. 165) . . . The profit on the patented articles is the difference between the cost of producing them and the price received for them. . . . it is manifest that every item of expense which should properly be included in the manufacture and sale of the infringing article should be so included in ascertaining the real profit thereon" (p. 166).

Wallace & Tiernan Co. v. Syracuse, 45 F. (2d) 693, 695 (C. C. A., 2d Cir.). In ascertaining an infringer's profits "There must, however, be deducted all his expenses."

Stromberg Motor Devices Co. v. Detroit Trust Co., 44 F. (2d) 958, 963-964 (C. C. A., 7th Cir.). Royalty payments were deducted as "an expense of the business" (p. 963), and in ruling on another deduction, the court declared the principle that "When recovery of profits is sought, the one seeking them takes whatever chance there is of reduction in the profits by the usual and proper expenses and allowances" (p. 964).

Oil Well Improvements Co. v. Acme Foundry & Machine Co., 31 F. (2d) 898, 900 (C. C. A., 8th Cir.). The court held that bad debts might be deducted if "actually incurred in connection with the manufacture or sale of this device by defendant".

L. P. Larson, Jr., Co. v. William Wrigley, Jr., Co., 20 F. (2d) 830, 832, 834 (C. C. A., 7th Cir.); modified on another point, 277 U. S. 97. A deduction for advertising was premised upon the principle that "Where the injured party seeks the profits of an infringer, he takes the chance of their reduction, or even extinguishment through expenses and losses actually incurred, however unwisely or even improvidently, so long only as they were incurred in good faith" (p. 832). A further deduction for taxes was based on the principle that "While equity requires in such circumstances accounting for the profits, equity also allows in reduction outlays in that behalf made in good faith" (p. 834).

Union Elec. Welding Co. v. Curry, 279 F. 465, 467 (C. C. A., 6th Cir.), certiorari denied, 260 U. S. 727. The permitted deduction was the aggregate net loss for the first year of the infringement—profits resulting only in subsequent years—allowed because it was "a part of the expense incurred in working up the business and bringing about the profits in the later period" (p. 467).

The wastage in the instant case is much more directly related to the profit-making sales.

> See *Canda Bros. v. Michigan Malleable Iron Co.*, 152 F. 178, 180 (C. C. A., 6th Cir.). The deduction was disallowed because not related to the manufacture or sale of the product being accounted for, but the court ruled the controlling test to be "that losses occurring concurrently with the gaining of profits may be taken into account—that is to say, if they are losses directly resulting from the particular transaction on which the profits are allowed. Though called losses, they are really diminutions which are taken into account in reaching the resultant profits of the sales on which profits were made."

The decision of the Circuit Court of Appeals on this issue is also in conflict with its own earlier rulings in *Continuous Glass Press Co. v. Schmertz Wire Glass Co.*, 219 F. 199, certiorari denied, 238 U. S. 623, and *Macbeth-Evans Glass Co. v. L. E. Smith Glass Co.*, 23 F. (2d) 459. It was ruled in the *Continuous Glass* case (p. 203) that:

> "If a part was waste, the cost of making the waste should not be deducted from the cost of making the whole, for the cost of producing waste was an ingredient in the cost of producing the resultant finished product, to the benefit of a credit for which, as against the profits to be charged to it, the defendant is entitled."

In the *Macbeth-Evans* case, *supra*, the court specifically held that "waste" is "a cost properly chargeable to manufacture" (p. 462) and the court affirmed, on all points here material, "an illuminating discussion on the law" (p. 460) by the lower court (21 F. (2d) 553), which had held (p. 555):

"losses occurring concurrently with the gaining of profits should be taken into account, if they resulted from the particular transaction on which the profits are allowed. In other words, though called losses, they are really diminutions, which are taken into account in reaching the resultant profits of the sales, on which profits were made."

. . .

"Hence, in determining the profits, if defendant is charged with the gross sales at the gross selling price, it must be credited with all those items which entered into the cost of manufacture and sale, such as **lenses returned, defective lenses,** the loss from bad debts and accounts in the sale of the infringing lenses, and also such discounts and allowances as were reasonably incident to the business, so that the defendant may be charged only with the profits actually made" (black face type ours).

These two cases were treated by the Master as decisive of this case (Master's Report, R. 808), and the District Court cited the *Macbeth-Evans* case as controlling (R. 874). Neither case is mentioned in the reversing opinion of the Circuit Court of Appeals.

It is clear that the case cited (R. 915) by the Circuit Court of Appeals (*Crosby Steam Gage & Valve Co. v. Consolidated Safety Valve Co.,* 141 U. S. 441—opinion by Mr. Justice Blatchford), is inapplicable because it merely ruled that the cost of making experimental valves (see page 454) could not be charged as an expense of the infringement. Likewise all experimental items were rejected by the Master and the District Court in the instant case (R. 810-811). The *Crosby* case has been understood to be inapplicable to a situation where the item of loss or expense bore a

direct relation to the profitable sales: *Union Elec. Welding Co. v. Curry, supra,* 279 F. 465, 467 (C. C. A. 6th Cir.).

Furthermore, the Circuit Court of Appeals may have been confused in the case at bar by other cases cited to it to the effect (1) that the cost of unsold inventory on hand at the end of the accounting period cannot be treated as an item of expense[1] (there being no such inventory in this case, R. 875), (2) that in a series of isolated infringements, loss producing sales cannot be carried into the account,[2] and (3) that losses on experimental product cannot be deducted.[3] It is submitted that the District Court was clearly right in holding (R. 875, quoted, *supra,* p. 24) that such cases were inapplicable to the case at bar.

2.

Should Plate Glass Have Been Taken Into the Account at Cost or Market Value?

The ruling. The manufacture of the infringing laminated glass was performed by Duplate Corporation, one of the accountants. Pittsburgh Plate Glass Com-

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[1] *Callaghan v. Meyers,* 128 U. S. 617 (opinion by Mr. Justice Blatchford); *Oil Well Improvements Co. v. Acme Foundry & Machine Co.,* 31 F. (2d) 898 (C. C. A., 8th Cir.).

[2] *Canda Bros. v. Michigan Malleable Iron Co., supra,* 152 F. 178 (C. C. A., 6th Cir.); *Metallic Tire Co. v. Hartford Rubber Works,* 245 F. 860 (D. Conn.); *Permutit Co. v. Refinite Co., supra,* 27 F. (2d) 695 (C. C. A., 2nd Cir.); cf. *McKee Glass Co. v. H. C. Fry Glass Co.,* 248 F. 125 (C. C. A., 3rd Cir.), in which it is impossible to determine from the opinion whether there were a series of isolated infringements, but in which case the willfulness of the infringement, in contempt of a court decree, was a prominent factor.

[3] *Crosby Steam Gage & Valve Co. v. Consolidated Safety Valve Co., supra,* 141 U. S. 441.

pany sold to it the plate glass and Dupont Viscoloid Company the pyralin so used by it in manufacturing laminated glass (Opinion, R. 877). **The plaintiff had no interest in either plate glass or pyralin.** The Plate Glass Company and the Dupont Company each owned fifty per cent. of the stock of Duplate Corporation (Master's Report, R. 793; Opinion, R. 877). No exception has been taken by the plaintiff to charging pyralin into the account at the price actually paid for it by Duplate Corporation, but the plaintiff was successful in inducing the Master and the District Court to rule that **plate glass should be carried into the account not at its market value when sold to Duplate Corporation or what Duplate Corporation actually paid for it,[1] but at manufacturing cost of the glass to the Pittsburgh Plate Glass Company** (Master's Report, R. 830). This position has been affirmed by the Circuit Court of Appeals in the following language (R. 921).

> "The defendants also assign error to the master's ruling that Pittsburgh could charge only the manufacturing cost of one-eighth-inch glass and not the market price. We agree with the master, for the reasons well stated by him, that the applicable authority is not Barber Asphalt Paving Co. v. Standard Asphalt & Rubber Co., 30 F.(2d) 281, cited by the defendants."

While the Circuit Court of Appeals felt able to dispose of this matter in two sentences, it involves a mini-

[1] This was never above the market price and was 10% below it for most of the accounting period (McHenry, R. 43; Higgins, R. 637; Wherrett, R. 685). It is conceded by the plaintiff in the eighth paragraph of the supplemental bill of complaint "that the Pittsburgh Plate Glass Company granted preferential prices for plate glass to * * * Duplate Corporation, said preferential prices being substantially under the market price charged other and unrelated customers" (R. 21).

mum of $713,036.29[1] and, on the Circuit Court of Appeals' further ruling (R. 915-916) concerning an allowance for use of the Plate Glass Company's own patents, the additional sum of $1,108,692.73, hereinafter discussed (*infra,* pages 46-56).

The Master's Report contains the following findings which demonstrate that the one-eighth-inch plate glass appropriated for the infringing use had a long and well-established market for non-infringing purposes and that Pittsburgh Plate Glass Company had sold plate glass to the automotive industry long prior to the infringement. It was found (1) that plate glass of the very thickness used in the infringement (one-eighth-inch) had well-established uses and consequently "a general market value outside of the automobile industry" quite apart from its infringing use (Master's Report, R. 836, 838)[2]; (2) that the Pittsburgh Plate Glass Company had sold a considerable quantity of one-quarter-inch plate glass to automobile manufacturers

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[1] The manufacturing cost of thin plate glass used by Duplate Corporation as computed by the Master (Master's Report, R. 844 B) under subheadings "Manufacturing Costs", "Interest on Investments", "Allowance for Use of Patent Process", "Federal Income Tax", and "Loss Cutting" aggregates $3,403,414.11. The price at which Duplate Corporation purchased this glass, which was the market price or lower, was found by the Master, under the heading "Thin Plate Glass used as per Exhibits DD-FF-R" to aggregate $4,116,450.40 (Master's Report, R. 844 A), making a difference of $713,036.29 between manufacturer's cost and the market price paid by Duplate Corporation.

[2] This finding is supported by uncontradicted testimony that one-eighth-inch plate glass has been imported into the United States and sold in large quantities since the early 1890's (Higgins, R. 377); that it had been manufactured and sold by the Pittsburgh Plate

for windshields or body lights in automobiles prior to the infringement (Master's Report, R. 793); (3) that the use of glass windshields and body lights was well established before the infringement (Master's Report, R. 793) so that the infringing article was not a new article of commerce in the sense that it would have been had there been no prior windshields or body lights in automobiles; and (4) that the plate glass that went into the infringing windshield or body light was one-eighth inch in thickness rather than one-quarter inch as previously used (Master's Report, R. 793), due to the fact that the infringing product comprised two sheets of plate glass (Master's Report, R. 836) instead of one as formerly. **The plate glass appropriated for the infringing use was in no sense different from the other plate**

Glass Company in substantial volume for at least twenty-seven years (Higgins, R. 374); that it had a well-established use in railroad, street car, and building windows, particularly casement windows (Higgins, R. 374-376); that the Pennsylvania Railroad had used it as standard equipment in all of its passenger cars for many years (R. 375, 388); that the Twin City Rapid Transit Company of Minneapolis had purchased one-eighth-inch plate glass from Pittsburgh Plate Glass Company as early as 1908 and 1909 (Higgins, R. 374); that all Pittsburgh street cars use it (Higgins, R. 375); that it has been used for many years in such miscellaneous articles as mirrors, show-case and book-case doors, toilet mirrors, vanity cases and the like (Higgins, R. 374-375, 383); that other American glass companies also sold one-eighth inch plate glass (Higgins, R. 378); that glass for the foregoing uses was made by the same process as that sold to Duplate (Higgins, R. 388). The product furnished Duplate was identical with all the rest (Clause, R. 608).

glass manufactured by the Pittsburgh Plate Glass Company for other purposes[1].

The ruling that this non-infringing and otherwise marketable plate glass must be accounted for at cost rather than market value or the price paid for it by Duplate Corporation, was predicated upon the assertion that the infringement had created an additional market[2] for this plate glass (Master's Report, R. 840). The Master relied strongly upon the argument that if the decisions of three Circuit Courts of Appeals, hereinafter cited at page 40, were followed, it would be easy for an infringer who was operating in bad faith to divert his profits into the non-infringing product (Master's Report, R. 838-839), overlooking the fact that it would be entirely possible to have one ruling for a party who had acted in good faith in its infringement and a different rule for one who had not. This very distinction prevails in regard to allowance for Federal income taxes actually paid (*Larson Co. v. Wrigley Co.*, 277 U. S. 97—opinion by Mr. Justice Holmes) and, as a result of that ruling, presumably in other aspects of patent accounting.

The error of the ruling. The plaintiff is not merely made whole by receiving the defendants' alleged profits on laminated glass; it is given a bonanza of large proportions in the form of easily segregated profits earned wholly on a non-infringing and otherwise marketable article, i. e., plate glass. If the defendants had bought this non-infringing marketable commodity from a third

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[1] There were no special runs or anything of that kind (Higgins, R. 388; Clause, R. 608).

[2] Substantially the defendants were selling laminated glass to customers of the Pittsburgh Plate Glass Company, which would otherwise have purchased one-quarter-inch plate glass from it (Higgins, R. 638-639; Wherrett, R. 687).

party, the patentee could not have expected to get such third party's profits, as, in this case, it makes no attempt to get the profits of Dupont Viscoloid Company on pyralin. If, by fortuitous circumstance, the infringer does his own manufacturing of the non-infringing and otherwise marketable product, it is a circumstance which does not damage the patentee and from which it is not entitled to profit. Any doubt of the fundamental fairness of this assertion may be quickly dispelled by considering the converse situation. If the Pittsburgh Plate Glass Company had lost money on its plate glass while Duplate Corporation had made a profit on its laminated, does anyone imagine that the plaintiff would concede that the profits from the sale of laminated glass should be decreased by the losses on the sale of plate glass? It would not have been allowed: *Tilghman v. Proctor, supra,* 125 U. S. 136, 146.

An equally serious difficulty with the ruling is that it carries the accounting beyond the scope of the pleadings and decrees, none of which refer to plate glass profits in any way.[1] This, we submit, was error: *Washington Railroad v. Bradleys,* 10 Wall. (U. S.) 299, 303

[1] The supplemental consent decree was entered on December 5, 1931 (R. 28). The plaintiff formally closed its case on January 27, 1932 (R. 252), without advancing the contention that this decree was broad enough to embrace an accounting for profits on plate glass. Its conception of the situation at that time was that the supplemental bill had been brought to make Pittsburgh Plate Glass Company "responsible for any damages that may be recovered in this instant suit" and that "it has been decreed by the court the Pittsburgh Plate Glass Company is responsible" (R. 252). After the defendants were well into their proofs (Clause, R. 253-312; Sherts, R. 313-366) and had shown that Duplate Corporation had suffered heavy losses in the manufacture and sale of laminated glass, the plaintiff belatedly had the happy inspiration of turning to plate glass profits (R. 367).

(opinion by Mr. Justice Swayne). The Pittsburgh Plate Glass Company became a party defendant by supplemental pleadings and consent decree. While there is no ambiguity as to the meaning of the supplemental consent decree (R. 28-30), its purpose and meaning become plain, beyond argument, when considered in the light of the supplemental bill of complaint and its prayers (R. 17-24). In the supplemental bill plaintiff makes various allegations that the Pittsburgh Plate Glass Company was responsible for the acts of the Duplate Corporation and, in the ninth paragraph (R. 22), that the former caused to be carried out the manufacture of the "strengthened glass" and instigated and contributed to the infringing manufacture of "said strengthened glass." No reference whatever is made to plate glass. **In the eighth and tenth paragraphs (R. 20-22) plaintiff avers that the Duplate Corporation is insolvent and, in effect, that unless the Pittsburgh Plate Glass Company is made responsible for Duplate's profits and the plaintiff's damages, plaintiff will be deprived of relief.** The second prayer of the bill asks that the Pittsburgh Plate Glass Company be adjudged responsible for the acts and doings of Duplate Corporation, and the third prayer asks for an injunction against the manufacture, use or sale of "strengthened glass." **The Pittsburgh Plate Glass Company had no objection to guaranteeing the financial responsibility of Duplate Corporation and it was for that reason that it consented to the decree which followed.** In the consent decree (R. 28-30) it is ruled in paragraph 1 that both defendants infringed upon the patent as to claim 12 (which relates to gelatin); in paragraph 2 that the Pittsburgh Plate Glass Company is enjoined from making, selling or using "strengthened glass;" in paragraph 3 that plaintiff recover from the Pittsburgh Plate Glass Company profits, etc., made from "said infringement" and that the company should be held jointly and severally liable with the Duplate Cor-

poration; in paragraph 4 that the Master report an account of the quantity of "strengthened glass" made or sold by the Pittsburgh Plate Glass Company and the profits which the latter has received from "said infringement" and also the damages which plaintiff has suffered by reason thereof. **It is obvious that the purpose of the supplemental bill and the consent decree was to obtain a solvent defendant.** No reference in either of same is made to profits in **plate** glass. Since the obvious purpose was to obtain a responsible defendant, it would require very plain language in both the supplemental bill and the consent decree to broaden this accounting so as to include profits on **plate** glass instead of profits on strengthened glass. Not only is there no such plain language, but the language used is squarely opposed to any such contention because confined to alleged profits on "strengthened glass." There is no mention in the supplemental bill or its prayers or in the consent decree of the manufacture of **plate** glass or the accountability of Pittsburgh Plate Glass Company for any profit arising therefrom, a fact admitted by the Master (R. 834).

The authorities. The ruling in the case at bar has been accurately stated by the Master (R. 830):

> "That Pittsburgh Plate Glass Company is entitled to credit for only the manufacturer's cost of the one-eighth-inch plate glass used by it, or sold by it to and used by Duplate Corporation, in making laminated glass in infringement of the patent in suit."

The affirmance of this ruling by the Circuit Court of Appeals (R. 921) is in conflict with decisions of the Circuit Courts of Appeals for the Second, Sixth, and Seventh Circuits which have ruled that (a) the purchase price (if **purchased** by the infringer) rather than market value, or (b) the market value (if **manufactured** by the

infringer) at the time of transfer to the infringing use, rather than the manufacturing cost to the infringer, are the proper bases for determining profits:

Barber Asphalt Paving Co. v. Standard Asphalt & Rubber Co., 30 F. (2d) 281, 284 (C. C. A., 7th Cir.); certiorari denied, 278 U. S. 659;

National Tube Co. v. Mark, 10 F. (2d) 430, 431 (C. C. A., 6th Cir.);

[1]*Hemolin Co. v. Harway Dyewood & Extract Mfg. Co.*, 166 F. 434, 436 (C. C. A., 2nd Cir.).

It was ruled in the *Barber Asphalt* case (page 284):

"We conclude:

"(a) That, where the infringer purchases material for use in manufacturing an infringing commodity, the cost price of the material rather than its market value should be used in computing profits.

"(b) Where noninfringing commodities which are marketable, that is, fit for market, are produced by the infringer and subsequently used by him in making the infringing products, then market value (ordinarily selling or transfer value) rather than cost to the infringer, is the proper basis for determining profits.

"Good reason supports this distinction.

"The patentee's right to recover from an infringer is due to the latter's invasion of the former's rights. The infringer is a tort-feasor. He commits the tort only when he begins his infringement. So long as he engages in the making of a noninfringing commodity, ready for the market, he

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[1] Accord: *Webster Loom Co. v. Higgins*, 43 F. 673, 674-675 (S. D., N. Y.).

commits no wrong. Any profits that he makes in such enterprise belong to him. When he embarks upon the new enterprise, that of making infringing products or material, from noninfringing marketable commodities, he becomes accountable to the patentee. But his liability is limited by his wrongdoing.

"This conclusion does no violence to the theory upon which an infringer is held as a trustee ex maleficio. For as such he is merely held for all of the profits that he derived from the manufacture, sale, or use, of the *infringing* products. It would be illogical to add to such profits those earned by the manfacturer when engaged in the lawful production of a *marketable* product." (Italics by the court).

It was held in the *Hemolin* case, *supra,* (166 F. at p. 436):

"The raw materials of the patent are the paste and the nitrite, which are to be treated together to produce the result. In figuring profits obtained by use of the process of the patent, the first element is the market price of the raw materials employed. The circumstance that defendant made the paste is as immaterial as would be the circumstance that he made the nitrite. Both of these substances are well-known marketable commodities, wholly outside the patent. If the infringer buys them of some one else at the market price, that is an element of cost. If he buys them of himself, he is entitled to have their cost taken as including the profit he would have had to pay the outsider. In producing those commodities, not covered by the patent, he is entitled to whatever profit he has earned, and the patentee may not call him to account for one penny of it."

While it makes no difference in the result which of the foregoing rules, (a) or (b), promulgated in the *Barber Asphalt* case (*supra*, p. 40), is applied to the case at bar, it is the fact that Pittsburgh Plate Glass Company and Duplate Corporation are entirely separate entities and that the latter purchased plate glass from the former. This was recognized by the District Court (R. 877), but was denied by the Master, who treated the two defendants as one (Master's Report, R. 835). It makes no difference in the case at bar which of the two rules, (a) or (b), is applied.

The Master conceded that other Circuit Courts of Appeals had ruled that a non-infringing and otherwise marketable product manufactured by the infringer should be accounted for at its market value at the time of appropriation to the infringement, even though the infringement had the effect of extending an existing market for the raw material (Master's Report, R. 840). He also conceded that in none of these cases had the courts limited their decisions to the extent suggested by him and later decreed in the case at bar (Master's Report, R. 838).

The Master (R. 799, 840-841) purported to follow *Armstrong v. Belding Bros. & Co.*, 297 F. 728, 731-732 (C. C. A., 2d Cir.), but that precedent was based on the factual assumption (pp. 731-732) that the raw material (silk) could not be sold unless the seller also carried, as part of his line of merchandise, silk in an infringing patented container. It was found as a fact (p. 732) that the defendant could not have sold a pound of silk had it not infringed the plaintiff's patent and carried a full line of silk in the infringing patented package. This is vastly different from the instant case, where the defendants were losing large sums of money in an attempt

to develop a commercial market for the patented product as a partial substitute for plate glass, another marketable product.

The decision of the Circuit Court of Appeals on this issue is in further conflict with a decision of the Circuit Court of Appeals for the Second Circuit, which has ruled that a manufacturer who infringes a patent should be allowed "a reasonable manufacturing profit upon the unpatented part of the apparatus": *Wallace & Tiernan Co. v. Syracuse, supra,* 45 F. (2d) 693, 695.[1] The conflicting ruling in the instant case was that the Plate Glass Company could charge "only the manufacturer's cost of the one-eighth-inch plate glass" (Master's Report, R. 830).

The decision of the Circuit Court of Appeals also conflicts with rulings to the effect that profits only indirectly or secondarily resulting from an infringement are not properly included in measuring an award to a patentee:

Piper v. Brown, 1 Holmes 196, Fed. Cas. No. 11, 181 (D. Mass.). Profits made by an infringer of a process for preserving fish, due to the increase in sales price of fresh fish because of reduction of the available supply through its use in the infringing device, held not recoverable.

Diamond Drill & Mach. Co. v. Kelley, 131 F. 89 (E. D., Pa.). An infringer of coiled clasps was held not obligated to account for

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[1] Accord: *Nelson v. Winchell & Co.,* 203 Mass. 75, 92-93.

profits derived by it from the manufacture and sale of machines and apparatus used in the manufacture of the infringing device.

Stromberg Motor Devices Co. v. Detroit Trust Co., supra, 44 F. (2d) 958, 964-965 (C. C. A., 7th Cir. Profit on accessories sold by the infringer with the infringing device held not recoverable.

To rule otherwise and award such profits arising in a field where the plaintiff had no interest, as has been done in this case, is to give a plaintiff something of which it was never deprived. It savors not of restitution, but of penalty.

The ruling also conflicts with the well-established principle that where there are parts of a commodity which do not involve a patent, but to which a portion of an infringer's profits are reasonably attributable, an apportionment of the profits as between those parts which embody the patent and those which do not should be made:

Westinghouse Elec. & Mfg. Co. v. Wagner Elec. & Mfg. Co., 225 U. S. 604, 614-615 (opinion by Mr. Justice Lamar);

Dowagiac Mfg. Co. v. Minnesota Moline Plow Co., 235 U. S. 641, 647 (opinion by Mr. Justice Van Devanter);

Fairbanks, Morse & Co. v. American Valve & Meter Co., 34 F. (2d) 869, 871 (C. C. A., 7th Cir.);

Stromberg Motor Devices Co. v. Detroit Trust Co., supra, 44 F. (2d) 958, 960 (C. C. A., 7th Cir.).

Metallic Rubber Tire Co. v. Hartford Rubber Works Co., 275 F. 315, 322-323 (C. C. A., 2d Cir.); certiorari denied, 257 U. S. 650.

As this Court stated in the *Dowagiac Mfg. Co.* case, *supra*, "the result to be accomplished is a rational separation of the net profits so that neither party may have what rightfully belongs to the other, and it is important that the accounting be so conducted as to secure this result, if it be reasonably possible". Such an apportionment is particularly easy of application in the case at bar where the infringer is manufacturing both the old non-infringing product and the new infringing product (plate glass and laminated glass, respectively), for the infringer should be entitled to keep, as his share of the profits, the amount which he would have realized had he not converted the non-infringing article (plate glass) into the infringing commodity (laminated glass). This position is well stated in the *Metallic Rubber Tire Co.* case, *supra*, at pages 322-323:

> "The authorities hold that any profit gained by a defendant from the use of what was old prior to the date of the patent infringed cannot constitute any part of the compensation to be awarded to the patentee. In the instant case the market value of the addition made by defendant to the old tire is easy of ascertainment. **Both kinds of tires were manufactured and sold by defendant side by side. The concurrent operations thus furnish a basis of ascertainment.** They show that the profit on the sales of an equal number of plain tread tires, arrived at by including exactly the same items of cost used in determining the profits received from the infringing tire, would have been $77,064.30" (black face type ours).

2-A.

The Disallowance of the Saving Effected by Twenty-Six Pittsburgh Plate Glass Company Patents on Plate Glass.

The ruling. This argument is a subdivision of argument 2 dealing with the ruling that the Pittsburgh Plate Glass Company must account at cost rather than market price for the plate glass which was appropriated for the infringing use.

Erroneous as we submit the ruling on the allowance for plate glass to have been, the further decision of the Circuit Court of Appeals (R. 915-916) that in the computation of this cost the Plate Glass Company is not to be given credit for the saving effected in its cost of plate glass by twenty-six patents owned and used by it in the manufacture of plate glass stretches a harsh ruling beyond its elastic limit. **Not one of these patents belongs to the plaintiff.**

The District Court accepted (R. 875) and the Circuit Court of Appeals did not controvert the finding of the Master that the savings effected by these patents amounted to $1,108,692.73[1] (R. 844 B, 800, 828). There was no confusion between this saving and the profits on laminated glass because the saving was in the field of plate glass manufacture and easily demonstrated (Master's Report, R. 800; Opinion, R. 875-876). The District Court found as a fact (R. 875-876), which the Circuit Court of Appeal did not question, that this saving was a very large factor in enabling the de-

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[1] This finding is supported by uncontradicted testimony (Clause, R. 579-612; McHenry, R. 515-517, 561-579). The patents were listed, offered in evidence (R. 607) and fully described (Clause, R. 592-607).

fendant to sell laminated glass in competition with the much cheaper plate glass, theretofore used in automobile windshields and body lights (R. 875-876)[1]:

> "We have reviewed the evidence on this subject, and we are of the opinion that the master correctly ruled the case. It appears to us from the testimony that the defendants' patented process was a very large factor in the saving of manufacturing costs which would permit the sale of laminated glass in competition with other glass. During the infringing period, laminated glass was competing with ordinary plate-glass windshields, and must of course be offered to the market at a price which would make them salable in comparison with ordinary plate-glass."

The saving averaged about ten cents a square foot of plate glass (Finding 6, R. 828) or about eighty cents a windshield, each such article having about four feet of laminated glass area (Master's Report, R. 822) necessitating eight feet of plate glass in its manufacture. Even with the advantage of this saving, plate glass outsold laminated glass in the automotive industry by a wide margin throughout the accounting period (Master's Report, R. 821-823). The price saving effected in laminated glass by the Pittsburgh Plate Glass Company's patents on plate glass was of vital importance in procuring purchasers of laminated glass in view of the poor quality of the laminated glass during the greater part of the accounting period and the absence of any public demand for it. The whole matter is well summarized by the Master as follows (R. 821-823):

> "During the accounting period the plaintiff's production was a little over eleven million square

[1] This finding is supported by the Master's report (R. 793, 817-819, 821-823).

feet, of which over 93% was sold to the Ford Motor Company, and no small part of the balance to individual owners of automobiles as distinguished from manufacturers. Even adding to this the defendant's sales of four million square feet, the aggregate is comparatively small when compared to the total feetage of windshields and windows in more than eight million cars produced during the accounting period.[1]

"The experience of the Ford Motor Company was not satisfactory in all respects. Many defects made themselves apparent and many windshields were required to be replaced. Mr. Wibel, Director of purchases [illegible] Ford Motor Company during the accounting period, testified that 20% of all Ford windshields were rejected or replaced as defective, 'a loss ten times too high.' Manufacturers of other cars in the low priced field, such as Chevrolet, Plymouth and Essex, did not appear to be unduly apprehensive that Ford would have any advantage over them on this account, and did not adopt safety glass on their own cars, although Plymouth did so later. Nor does there appear to have been a 'very substantial demand' for laminated glass at that time. Mr. Wibel testified that during the years 1928, 1929 and 1930 'there perhaps has been some public demand but not to the extent to influence us necessarily' and added that Ford standardized on

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[1] An average automobile has a glass area of from 22 to 25 square feet (Downey, R. 486), making an aggregate glass area of between 160,000,000 and 200,000,000 square feet in the 8,000,000 automobiles sold during the accounting period. The 15,000,000 feet manufactured by the plaintiff and defendants, according to the Master's finding, would equip less than 10% of these cars.

safety glass on the ground of protecting the customers rather than on account of public demand. President Fisher of the Fisher Body Corporation stated that there was no public demand and Colonel Downey, a Chrysler executive, likewise agreed that there had been no substantial public demand, as did Mr. J. E. McLarty, service manager of the Hudson Motor Company. Mr. H. S. Wherrett, President of the Pittsburgh Plate Glass Company, testified that they met a great deal of resistance in endeavoring to sell this product to the automobile manufacturers inasmuch as there was no public demand for the same, and, as was testified by Mr. H. B. Higgins, Vice President of Pittsburgh Plate Glass Company, 'the buying public were not, as the advertising man says, conscious of laminated glass. They didn't ask for it when they went to buy automobiles; consequently, the automobile manufacturers saw no sales advantage in using it. So that is why I say there was no demand for it.' And even Mr. Neilson Edwards, Vice President of the plaintiff company, testified that as late as 1926 the public 'knew nothing about' laminated glass, and the automobile manufacturers took a position that irrespective of the merits of the product, they did not put it on the cars that they manufactured until the public demanded it, and that they were forced to sell to individuals until they could create a public demand for the product.

"In fact, a study of the plaintiff's sales figures reveals that, exclusive of Ford deliveries, total sales to automobile manufacturers and to the general public numbered slightly over seven hundred thousand square feet which, if devoted entirely to windshields, would only equip about 175,000 cars, by

way of contrast to the more than eight million new cars manufactured during the accounting period.

"From this evidence, which appears clear and undisputed, ..."[1]

The plaintiff was having great trouble in reconciling a price schedule satisfactory to it with what it could induce the automobile manufacturers to pay. Its so-called "established prices" were quite unacceptable, the Master finding (R. 823):

"This testimony likewise satisfies the Master that the price schedule adopted by the plaintiff company was not generally accepted by automobile manufacturers as being fair."

The Master reached this conclusion (R. 818):

"in the light of the testimony of Mr. Fisher of the Fisher Body Corporation and Mr. Downey of Chrysler, both of whom stated that the plaintiff's price schedules would not have been generally accepted even had Duplate not been in the business."[2]

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[1] This summary finds support in the testimony of Fisher of Fisher Body Corp., R. 447-448; Wibel of Ford Motor Co., R. 417-418, Downey of Chrysler Motors Corp., R. 488-490, 494-495; McLarty of Hudson Motor Car Co., R. 500, 504; Wherrett, R. 682, Higgins, R. 379-383, 623-624, 634; Edwards of Triplex Safety Glass Co., R. 131.

[2] Fisher, whose company purchased the glass for all the closed cars of General Motors Corporation (R. 444-445), testified in substance (R. 446) that no consideration was given to the general use of laminated glass in Cadillac and LaSalle bodies until the Pittsburgh Plate Glass Company in 1928 offered to supply it at $1.75 per square foot plus the cost of the edge work. Downey, of the Chrysler Corporation, testified (R. 495): "I still think there was no demand for laminated glass

The Circuit Court of Appeals has reversed (R. 915-916) the patent allowance made by the Master (R. 800, 828, 830) and the District Court (R. 875-876) on the arguments, (1) that the patents did not enable the Pittsburgh Plate Glass Company to make a superior quality of plate glass and therefore did not result in a superior type of laminated glass, and (2) that the law is settled that where the entire commercial value of a product arises from a patent, its owner is entitled to recover the entire profits derived from the manufacture and sale of that product.

We submit, with deference, that it is immaterial whether the Plate Glass Company's patents resulted in an improved article. They have been found to have resulted in an article that was salable by reason of its price (R. 875), as distinguished from one that was not. But the important consideration is that **the patents belonged to the Plate Glass Company, not to the plaintiff,** and that

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to justify paying even one-half the price that was asked for it in 1929 . . ."

An average automobile windshield contains approximately four square feet of glass area (Master's Report, R. 822; Downey, R. 486), but a **laminated** windshield calls for two sheets of thin glass and a sheet of pyralin. With plate glass at about forty cents a square foot (Master's Report, R. 844 A; Caulfield, R. 191), the material cost of the ordinary **plate glass** windshield would be about $1.60 as contrasted with a laminated windshield material cost of $3.20 for glass and $.80 for pyralin (at $.20 a square foot—Ex. "Q", submitted as an original exhibit) or a total of $4.00. Manufacturing difficulties incident to lamination (*infra,* pp. 64-65) greatly increased this spread. Small savings on each car are a matter of importance (Fisher of Fisher Body Corp., R. 450-451) to the highly competitive automobile industry (Higgins, R. 634).

the profits resulting from their use occurred in the manufacture not of **laminated**, but of **plate** glass.

The rule that where the entire commercial value of a product arises from a patent its owner is entitled to recover the entire profits, has no application to a situation presented by the undisputed finding (R. 875) that it was the reduction in cost brought about by these very patents that made it possible to sell **laminated** glass, and in view of the further incontrovertible fact that **plate** glass is a well-known marketable commodity, both in and out of the automobile business, quite apart from any infringing use.

The error of the ruling. If the ruling of the Circuit Court of Appeals is adopted, a patent accounting becomes a proceeding not primarily to make a patentee whole, but to penalize one who has infringed by stripping from him everything even remotely connected with the infringement and turning it over to the patentee. The ruling is applied not merely to a deliberate infringer, but in the case at bar to companies which have been found to have acted in good faith in their infringement. The Pittsburgh Plate Glass Company has twenty-six patents which it used to make a marketable plate glass. The plaintiff has one patent on making a product composed of two sheets of that glass primarily for use as automobile windshields and body lights, which were not new articles of manufacture, but simply improvements over the old. The old plate glass outsold laminated glass for automotive use by a wide margin throughout the entire accounting period, which ended May 30, 1930 (Master's Report, R. 821-823; see also, note 1, *supra*, p. 48). Yet the Pittsburgh Plate Glass Company must turn over to the plaintiff not merely the alleged profits attributable to the latter patent, but the savings which the Master and both of the lower courts have accepted as having

been made possible by the twenty-six plate glass patents, in none of which the plaintiff has any right or interest whatever.

The authorities. The decision of the Circuit Court of Appeals that the Pittsburgh Plate Glass Company was not entitled to the savings in the manufacture of plate glass brought about by the patents owned by it is contrary to the applicable decisions of this Court that a manufacturing infringer is entitled to an allowance for the savings in manufacture effected by his own patents. It was ruled in *Mason v. Graham,* 23 Wall. (U. S.) 261, 276-277 (opinion by Mr. Justice Strong):

> "But the master further reported that the defendant made the infringing motions after a pattern of his own devising; that they cost per pair 50 cents less than the picker-staff mechanism which he had immediately before put upon his looms; that they were made under a patent granted to him, and that they cost about 50 cents less than the motions made by the plaintiffs, the difference in the cost being due to his invention. If this is so, it is clear that the 50 cents saved on each pair, equivalent to 50 cents profit, is not due to the complainants invention . . . Manifestly the complainants are not entitled to the savings or profits resulting from the defendant's own invention" (p. 276-277).

> "We think, also, that the defendant has been excessively charged for the profits made by him on the 346 beds, and the 1548 rockers sold by him at various times for the repair of bridle motions previously made. **He has been credited with the cost only, without reference to the fact that the cost was reduced by his own invention"** (p. 277—black face type ours).

A similar ruling was made in *Mowry v. Whitney*, 14 Wall. (U. S.) 620, 650-651 (opinion by Mr. Justice Strong), where it was held:

> "the court decreed against the defendant the entire profits made by him in the manufacture and sale of the wheels from beginning to end, not only the profits resulting from the reheating and regulated slow cooling in connection, but also those which may have resulted from mixing and melting the iron, casting in molds, making the chill, and from the possible advance on the iron above its cost, with interest on the whole.
>
> "This we think was an error" (p. 650).
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> . . .
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> "The same principle, therefore, which gives to the complainants the aggregate profits of the entire manufacture would give the same profits to a patentee of the process of chilling, if there were one, and as there are many processes in the manufacture, for each of which it is conceivable there might be a patent, and as every one of the processes is necessary to make a marketable wheel, **an infringer might be mulcted in several times the profits he had made from the whole manufacture.** We cannot assent to such a rule" (pp. 650-651—black face type ours).

The decision of the Circuit Court of Appeals on this issue is in further conflict with decisions of the Circuit Courts of Appeals for the Second and Seventh Circuits, where it has been ruled that an infringer is entitled to treat, as an item of expense, royalties paid to a third party on a patent used in the course of making the infringing product, even though the third party to whom the royalty was paid was the owner of most of the stock of the infringer:

Stromberg Motor Devices Co. v. Detroit Trust Co., supra, 44 F. (2d) 958, 962-963 (C. C. A., 7th Cir.);

Stromberg Motor Devices Co. v. Zenith-Detroit Corp., supra, 73 F. (2d) 62, 65 (C. C. A., 2nd Cir.).

The District Court, relying upon the cases last cited, stated in justification of its allowance of a comparable royalty to the Pittsburgh Plate Glass Company (R. 876):

> "If the defendants had been paying royalty on these twenty-six patents that were involved in their process of manufacture, that payment, of course, would have been an allowable deduction. We can see no distinction if they themselves happened to own the patents. We believe they should be entitled to a reasonable royalty-allowance on account of their patents."

The Master's ruling to the same effect (R. 800) was predicated upon decisions of this Court to the effect previously quoted (*supra,* pp. 53-54).

The Circuit Court of Appeals in the case at bar cites, in justification of its reversing ruling (R. 916), authorities said to be applicable "where the entire commercial value of a mechanism or product arises from the patent improvement." It is submitted that this line of authority is plainly inapplicable to the case at bar. If it were applicable, it would be in conflict with the decision of the Circuit Court of Appeals for the Second Circuit in *Cincinnati Car Co. v. New York Rapid Transit Corp.,* 66 F. (2d) 592, 593, 594, where it was held that the owner of one of several patents covering an infringing article could not collect the entire profits from the sale of that article by an infringer even though the article could not have been sold without the use of the

invention covered by the infringed patent. It was held:

> "It is of course possible to imagine an invention for a machine, or composition, or process, which is a complete innovation, emerging, full grown, like Athene, from its parent's head. It would then be easy to say that profits were to be attributed wholly to the invention. Such inventions are however mythological. All have a background in the past, and are additions to the existing stock of knowledge which infringing articles embody along with the invention" (page 593).
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> "When it (the entire value) is to be so attributed was left at large; but we **doubt whether it is enough that the article could not have been sold or used without the improvement.** That is indeed material on the issue of damages, since it goes far to show that the patentee, who alone could have supplied the demand, would have got the sales. But it cannot really determine how much of the infringer's profits are due to the patent. True, the improvement in such a case is a condition, but so is everything else which the infringer uses and owes to the prior art" (page 594—matter in parenthesis and black face type ours).

It would seem doubly clear that the plaintiff could not get both laminated glass and plate glass profits in the instant case because plate glass, which does not involve the plaintiff's patent, could be and was sold apart from an infringing use.

3.

Method of Stating the Account.

The ruling. The Circuit Court of Appeals has directed (R. 913-914) the District Court not merely to determine profits on profit-making sales, disregarding those made at a loss, but to compute them by deducting the average cost of manufacture from the specific sales price on each transaction. This reversal of the District Court again presents a question of law, there being no disagreement between the tribunals (R. 913-914, 921) as to the facts. The District Court found it to be the fact that (R. 874):

> "The defendants were engaged in a regular and continuous business during the period of these operations in the manufacture of infringing glass. In this continuous business, the infringing glass cannot be treated separately."

The Master found (R. 829), and the District Court adopted the finding (R. 880), that

> "17. That defendant, in figuring its costs, used average manufacturing costs month by month although production costs varied materially with different orders. The Master is unable to determine specific manufacturing costs."

Both the Master (R. 812-813) and the District Court (R. 875) recognized the long-established rule that profitable sales were to be accounted for while loss-producing sales were not to be deducted, but they were confronted with the practical problem that every court must face in attempting to determine those profits where the infringer is engaged in a regular and continuous business in which there is in effect one continuous infringement, rather than a series of isolated ones and in

which it is a practical impossibility to determine the specific cost of a given sale. As the District Court commented (R. 874):

> "To determine truly the profits or losses, sales-prices must be compared with specific costs of items of manufacture of the infringing article."

That being impossible the court was confronted with three alternatives: (1) it could realistically treat the business as one continuous infringement, as in fact it was, and compute the aggregate net profit on that continuous infringement; or (2) it could treat each sale as a separate infringement, but due to the impossibility of determining actual costs on that sale, compute the profit by deducting from an average selling price for such product an average cost; or (3) it could work out an average cost based upon one continuous infringement, and then, shifting theories, contrast that average with the specific selling price received on each sale.

Both the Master and the District Court, finding the third method inequitable, as well as inconsistent with itself, adopted the first. The inequity of the third method as applied to this case arose from the fact that average costs did not in fact reflect specific costs, because, as the Master pointed out (R. 813):

> "In this particular instance, however, *average* costs do not reflect *specific* costs for many reasons, among them the following:
>
> (1) All production does not cost the same per foot in any given month due to difference in cost of glass on account of size, bracket and quality, and in cost of pyralin because of finish and size of sheet.
>
> (2) Cutting losses of different brackets of glass are not equal nor are losses in operation equal.

(3) Edge work was performed on some sales and not on others, causing a considerable spread in cost of manufacturing.

(4) The cost of an order for one thousand windshields is much less per light than the cost of an order for ten windshields, because, regardless of the size of the order, a template must be made and can be used for a thousand lights as well as ten" (italics by Master).

The District Court adopted these findings (R. 874, 1113), but the Circuit Court of Appeals, while not disagreeing with the findings (R. 913-914, 921), disagreed with the conclusion.

The Circuit Court of Appeals has apparently ruled as to the three alternatives previously mentioned (*supra,* page 58): (1) that there is a rigidity to patent accounting which excludes in every case the possibility of treating an infringement as one continuous act; (2) that there is no room for a middle-of-the-road position that, if average costs are to be used, they should be deducted from average selling prices to determine profits; and (3) that where there is in fact one continuous infringement, it is to be treated as such for the purpose of computing an average cost, which being done, the infringement is then arbitrarily broken up into a series of specific infringements and this average cost compared with specific selling prices for the purpose of ascertaining profits, regardless of the fact that the individual sales may be of a product so expensive to make that it costs much more than the average prices.

The error of the ruling. If an infringement in the course of a regular and continuous business is so much a single act that actual costs can be computed on the whole production but not on the different orders of laminated glass manufactured, even though it is known that

the cost of different orders varies considerably, then it is submitted that there has been a single continuing act of infringement and that it should be so treated not only in determining costs, but in computing revenues and determining profits.

It proves nothing to say that Duplate Corporation's own books compute costs on an average basis, because the error of the plaintiff's position is not in the computation of an average cost **but in its subtraction from the proceeds of a specific sale.** The Master found (R. 814-815):

> "the fact that the defendant's own books computed costs on an average basis does not justify the subtraction of an average cost from a specific selling price, in order to determine whether a given transaction was a loss-producing or profit-making one."

Under no circumstances should it be permissible to compute profits by deducting an **average** cost from the proceeds of a specific sale. Not only may such costs bear no accurate relation to actual or specific costs, as in the case at bar, but in every case an average cost will have, as a component part, savings effected by large scale production and manufacturing operations incident not merely to profitable, but to unprofitable, sales, while segregated selling prices will not reflect this factor. In other words, under this erroneous theory, the loss-producing sales would be used to bring about a low **average** cost, but would be ignored in the computation of the selling price.

There is another reason why this laminated glass business should be considered as a whole and not as a series of isolated infringements. The new product was in competition with plate glass which had been used in automobiles for many years. The automobile manufacturers could not be induced to purchase the new product

except at low prices. The District Court held (R. 875-876) that the low prices of laminated glass were necessary in order to compete with plate glass.[1] This was not a situation in which the defendants could set a profitable price on laminated glass. If they had done so, they would have made practically no sales. It was necessary to induce the automobile manufacturers to use the product in order to discover its merits. Therefore this was not a case of isolated sales, it was a case in which the business must be treated as a whole in order to produce any sales. This is precisely the principle that was applied in *Union Electric Welding Co. v. Curry, supra,* 279 F. 465, 467 (C. C. A., 6th Cir.), where it was held that the infringement should be treated as a whole for the purpose of permitting the infringer to deduct as an item of expense his losses for the first year of the infringement because it was "a part of the expense **incurred in working up the business** and bringing about the profits in the later period" (p. 467—black face type ours).

The authorities. The decision of the Circuit Court of Appeals that a continuous manufacture of an infringing product can under no circumstances be treated as a single continuous infringement is in conflict with a decision of the Circuit Court of Appeals for the Sixth Circuit, as well as with an earlier decision of the Cir-

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[1] Fisher, whose company purchased the glass for all closed cars of General Motors Corporation (R. 444-445), testified in substance that no consideration was given to the general use of laminated glass in Cadillac and LaSalle bodies until the Pittsburgh Plate Glass Company in 1928 offered to supply it at $1.75 per square foot, plus the cost of edge work (Fisher, R. 446-447). Downey, of the Chrysler Motors Corporation, testified (R. 495): "I still think there was no demand for laminated glass to justify paying even one-half the price that was asked for it in 1929 . . . ."

cuit Court of Appeals for the Third Circuit, where accountings were so conducted in circumstances comparable to the present case:

> *Union Electric Welding Co. v. Curry, supra,* 279 F. 465, 466-467 (C. C. A., 6th Cir.);
>
> *Macbeth-Evans Glass Co. v. L. E. Smith Glass Co., supra,* 21 F. (2d) 553, 555 (W. D., Pa.); affirmed, 23 F. (2d) 459 (C. C. A., 3rd Cir).

Judge Schoonmaker, in deciding the instant case in the District Court, relied upon the *Macbeth-Evans* case, *supra,* in ruling that the infringement should be treated as a single continuous act (R. 874). In the *Macbeth-Evans* case, the Circuit Court of Appeals has specifically approved, on all matters here material, as "an illuminating discussion of the law" an opinion of the District Court wherein it had been ruled (21 F. (2d) 553, 555):

> "While the defendant was an infringer, it was carrying on a regular and continuous business, during the period of its operations in the manufacture of the infringing lenses. In this continuous business, the infringing lenses cannot be treated separately as constituting a vast number of separate infringements."

The alternative chosen by the Circuit Court of Appeals in the case at bar, namely, a computation of profit by deducting an average cost from the proceeds of a specific sale, is in conflict with a well-reasoned opinion that such a computation should not be made where average costs do not fairly reflect actual costs: *Christensen v. National Brake & Elec. Co.,* 10 F. (2d) 856, 870,

871 (E. D., Wis.).[1] The remaining alternative, a computation of profits by the deduction of an average cost from an average selling price, although not discussed in any of the opinions in the case at bar, was applied by Mr. Justice Nelson, presiding in the Circuit Court for the Southern District of New York, in *Tatham v. Lowber,* 4 Blatch. 86, Fed. Case No. 13,765; affirmed, except as to an interest allowance prior to the date of the Master's Report, *sub nom, LeRoy v. Tatham,* 2 How. (U. S.) 132, 141.

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[1] The court there held (p. 871):

"The test for determining profit or loss by merely casting the sum of direct costs plus an allocated portion of selling, indirect or general burdens, against a selling price cannot be recognized in determining actual profit in either an *infringing* or a *noninfringing* situation. **Averaging or allocating, for cost-estimating purposes, and calculation of profits received are different. One may have as its objective prices to be asked; the other must respect prices exacted and received.**

"(10) Upon this discussion we are convinced that, when the ordinary course of manufacturing or selling is continuous, having constant factors of direct costs, variable factors of overhead and selling prices, the continuity of the process, and the unequal alliance of the constant and variable factors, at once destroy the possibility of casting an actual as distinguished from an average, profit per unit. The importance of the matter in this case is at least twofold, in that the method invoked may impose upon the defendant either an aggregate, or a so-called per unit, profit, which is greater or different than that actually received; and, secondly, in setting out infringing units beyond the field of profits, to be dealt with perhaps somewhat mandatorily as a basis for awarding damages" (black face type ours).

II.

GENERAL DAMAGES.

The applicable Federal statute (Revised Statutes, Section 4921, *infra* p. 76 provides, under the contingencies therein stated, for an award of "general damages". The statute makes no reference to a "reasonable royalty". The latter expression is used by the courts as a "convenient designation" (*Standard Brands v. Federal Yeast Corp.*, 38 F. (2d) 314, 322-D. Md.) in determining the amount of an award under the statutory provision for general damages. We believe that, even if, under the circumstances of this case, a "reasonable royalty" may be awarded, the amount so awarded by the District Court was greatly excessive[1].

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[1] The testimony of Harness (patent counsel and license negotiator for Chrysler) and Blackmore (counsel and negotiator for General Motors) that a reasonable royalty should not exceed ½¢ a square foot of laminated glass (R. 461-463, 474-477) was well reasoned and convincing. The boomerang in the alleged advertising value of plaintiff's contract with the Ford Company appears from the testimony of Downey (President of the selling subsidiary of the Chrysler Motors Corporation) (R. 485) that the Ford Company's unsatisfactory experience in attempting to manufacture the plaintiff's product was a distinct detriment to laminated glass and of Higgins (Vice President of the Pittsburgh Plate Glass Company) that (R. 634) "nothing has happened to the laminated glass business that has hurt it so much as that Ford windshield." Plaintiff's license to the Johnston Glass Company at 10¢ a square foot (Exhibit 24, R. 981) is of no consequence because there was no "satisfactory evidence of sales under it" Master's Report, R. 816-817) and because it contained no minimum royalty provision. Under the contract between plaintiff and

If this court should sustain our position that defendants are entitled to take credit for the plate glass at its market value instead of its cost of manufacture (thus increasing the loss of the defendants) or if this court should sustain our position that defendants should be permitted to examine the books and records of the plaintiff, it is obvious that a Special Master and the District Court might consider it proper to estimate a so-called reasonable royalty at an amount far less than the amount heretofore awarded as such royalty and we respectfully request the opportunity to obtain such relief. If, however, this court should rule against us upon the following three points, (a) our claim that defendants should be allowed to take credit for plate glass at its market value, (b) our claim that defendants should be permitted to examine plaintiff's books and

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the Ford Company, the latter was obligated to purchase from plaintiff for four (4) years one-half of the monthly requirements of laminated glass of the Ford Company and to pay plaintiff therefor cost plus 20¢ a windshield (R. 1015). The twenty cent figure amounted to 5¢ a square foot because a windshield contains approximately 4 square feet of glass (Master's Report, R. 822; Downey, R. 486) but the contract gave the Ford Company a free license to manufacture the remaining one-half of its requirements (R. 1015) which cut in half (or to 2½¢ a square foot) the royalty on the product manufactured by plaintiff for Ford. The great difficulties encountered by the Ford Company in attempting to develop a manufacturing technique for this product were testified to by Wibel (Director of Purchases of the Ford Company) (R. 418-421) and McCarroll (in charge of chemical and metallurgical work of the Ford Company) (R. 428-431). It is significant that, as shown by the testimony of McCarroll (R. 433-434), the plaintiff did not know how to manufacture its own product on a commercial basis.

records, and (c) our claim that a so-called reasonable royalty should not be awarded in this case in the absence of proof that plaintiff's actual damages cannot be computed and in the face of its refusal to produce its records from which such computation might be made, then we do not think we should ask this court to assume the burden of determining the question of fact whether or not $414,120.70 is a reasonable royalty, and we make no such request. We feel that if this court should decide as stated above we should accept the decree of the District Court as to the above mentioned amount of the so-called reasonable royalty. We respectfully maintain for the reasons hereinafter set forth (1) that there should not be an award of general damages in the form of a so-called reasonable royalty under the facts of this case and (2) if such award is made, interest should be allowed not from the date on which infringement ended but only from the date of the award.

1.

May General Damages Be Awarded Without Giving the Defendants an Opportunity to Calculate the Plaintiff's Actual Damages?

The ruling. The Circuit Court of Appeals has ruled (R. 919-921) that **general** damages may be awarded without regard to whether the plaintiff's **actual** damages are susceptible of calculation and determination with reasonable accuracy. The plaintiff made no attempt to demonstrate that these damages could not be calculated; indeed, it submitted some evidence in support of such a calculation (Master's Report, R. 817-819)[1]. Upon analysis by the Master it was found that there was no basis for awarding damages because of lost sales and that damages because of sales made at a reduced price had not been demonstrated to exceed $2,807.89 (R. 817-819). Nevertheless such extravagant claims of damage were bound to make an impression upon the Master's mind. In an effort to forestall the possibility that such an impression might be created by these tremendous claims "set down with delusive exactness",[2] the defendants sought the chance to demonstrate from the plaintiff's own books that its actual damages were capable of computation and that they

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[1] This evidence in the form of Exhibits 27 and 28 (R. 996) alleged damages respectively of exactly $3,188,083.66 (see R. 681) as a result of lost sales and of exactly $127,723.13 as a result of sales made at a reduced price. These enormous claims were based on the assumption that plaintiff would have made all the sales made by Duplate Corporation and would have made all sales at the much higher prices contained in plaintiff's price schedule although, as stated above (p. 50), the Master found that plaintiff's price schedule was not acceptable to the trade.

[2] Mr. Justice Holmes in *Louisville v. Cumberland Tel. & Tel Co.*, 225 U. S. 430, 436.

were small. This request (R. 529-533, 750) was resisted by the plaintiff (R. 533) and denied by the Master (R. 533, 613, 751).

The Circuit Court of Appeals sustained this ruling on the argument that an examination of the plaintiff's books would only be relevant had the plaintiff sought to recover its actual damages for lost sales. The Circuit Court of Appeals held (R. 921): "There is no prayer for an account of damages for loss of sales by the plaintiff occasioned by acts of the defendant." But in the prayers of the bill, which are set forth in the immediately preceding portion of the court's opinion, it appears under (2) "that the defendant be compelled to account for and pay to the plaintiff . . . the actual damages suffered by the plaintiff from the infringement." Plaintiff's "actual damages" include any lost sales. Furthermore, as we have shown (*supra,* p. 67), plaintiff submitted some proof of damages through alleged lost sales.

The error of the ruling. Revised Statutes, Section 4921, the controlling enactment (*infra,* page 76), did not make provision for an award of general damages in lieu of an award based upon a defendant's profits or a plaintiff's actual damages until 1922, when such provision was inserted by way of amendment. The statute squarely conditions the right to secure general damages as follows:

> "If . . . damages or profits are not susceptible of calculation and determination with reasonable certainty, . . . the court may adjudge and decree the payment by the defendant to the complainant of a reasonable sum as profits or general damages for the infringement" (black face type ours).

There is sound policy behind this statutory condition precedent, this subordination of a guess to a calculation.

If a plaintiff's actual or specific damages can be computed and a defendant's actual profits determined, there is no justification for going beyond the alternative most favorable to the plaintiff and penalizing a defendant by entering a decree for something other than that which the plaintiff has lost or the defendant has gained.

The evidence from the books was clearly relevant on the issues of (1) the extent of the plaintiff's actual damages as a possible measure of restitution; (2) whether actual damages were incapable of calculation, and general damages, therefore, permissible, and, if so, (3) whether it was true that the plaintiff should have a large award of general damages, and, on that issue, what a manufacturer of the patented article could afford to pay as a so-called reasonable royalty and continue to operate at a fair profit.[1]

The authorities. The decision of the Circuit Court of Appeals on this point is in conflict with decisions of the Circuit Courts of Appeals for the Second and Sixth Circuits, in each of which the court has ruled that it is a **statutory condition precedent** to an award of general damages (reasonable royalty) that actual damages be not susceptible of calculation and determination with reasonable certainty:

Wallace & Tiernan Co. v. Syracuse, supra, 45 F. (2d) 693, 694-695 (C. C. A., 2nd Cir.);

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[1] This formula has become the judicial yardstick by which a so-called reasonable royalty is measured: *Lockwood v. General Fire Extinguisher Co.,* 37 F. (2d) 62, 66 (C. C. A., 2d Cir.), certiorari denied, 269 U. S. 571; *Merrell Soule Co. v. Powdered Milk Co. of America,* 7 F. (2d) 297, 300 (C. C. A., 2d Cir.). **The experience of the patentee is relevant on this issue:** *Austin-Western Road Machinery Co. v. Disc Grader & Plow Co.,* 291 F. 302, 304-305 (C. C. A., 8th Cir.), certiorari denied, 263 U. S. 717; *Standard Brands v. Federal Yeast Corp., supra,* 38 F. (2d) 314, 322 (D., Md.).

Overman Cushion Tire Co. v. Goodyear Tire & Rubber Co., 66 F. (2d) 361 (C. C. A., 2nd Cir.);

Enterprise Ry. Equipment Co. v. Wine Ry. Appliance Co., 77 F. (2d) 159, 161 (C. C. A., 6th Cir.).

The Circuit Court of Appeals in the instant case conceded that the *Wallace* case is in conflict with its ruling (R. 920), but minimizes the conflict by the assertion that the case has been distinguished on its facts in *Cincinnati Car Co. v. New York Rapid Transit Corp., supra,* 66 F. (2d) 592, 595. An examination of the latter case will show that it qualified in no particular the ruling of the *Wallace* case on the issue now under discussion. Indeed the Circuit Court of Appeals for the Second Circuit specifically recognized the authority of the *Wallace* case on this issue in *Overman Cushion Tire Co. v. Goodyear Tire & Rubber Co., supra,* 66 F. (2d) 361.

2.

Interest.

The ruling. The Circuit Court of Appeals has ruled that interest on an award of general damages may be imposed from the date of last infringement. Infringement ceased on May 30, 1930, the Master's Report was made on January 12, 1934, and the decree of the District Court was entered July 2, 1934. Interest thus awarded for the period May 30, 1930, to July 2, 1934, amounts to $101,459.57 (R. 879).

The error of the ruling. Both the opinions of the District Court (R. 878) and the Circuit Court of Ap-

peals (R. 912, 919) recognize that the award in the instant case was one of "general damages". The applicable portion of the controlling statute (*infra,* page 76) speaks of "general damages", but makes no reference to a "reasonable royalty". The last mentioned expression has no status except as a label by which to measure an award of general damages. General damages are necessarily unliquidated until fixed by a master or a court. It is submitted that the ruling in the instant case that such an award should bear interest from the date of the last infringement—years prior to the liquidation of the damages—does violence to the well-established principle that unliquidated damages should not bear interest until liquidated, for not until then does a defendant have an opportunity to pay them. A contrary ruling can only be based on the specious argument that there is an analogy between general damages measured by a so-called reasonable royalty and an unpaid contractual royalty, on which latter item interest properly runs from the date when payment was contractually due. The analogy falls because it places an unliquidated tort claim on the same footing with a liquidated contractual obligation. Such an argument would have merit only in those cases where there was proof of an established royalty and damages were measured by it, for then it might be argued that the basis for computing the amount due and the time when it should have been paid could have been determined. But in the case at bar there was no such established royalty and consequently no such proof (Master's Report, R. 816-817). The argument, in the absence of an established royalty, is simply an erroneous deduction from the non-statutory yardstick or label of "reasonable royalty" illustrating again what Mr. Justice Cardozo has termed "the repression of a formula, the tyranny of tags and tickets" (44 Harvard Law Review, 682, 688).

The authorities. The decision of the Circuit Court of Appeals on the allowance of interest is in apparent conflict with applicable decisions of this Court and in clear conflict with those of various Circuit Courts of Appeals. It has long been settled by decisions of this Court that damages measured by an established profit to an infringer, being, in effect, a measure of unliquidated damages, bear interest from the date of their liquidation by an award, rather than from the date of infringement:

Mowry v. Whitney, supra, 14 Wall. (U. S.) 620, 653;

Tilghman v. Proctor, supra, 125 U. S. 136, 160-161;

Crosby Steam Gage & Valve Co. v. Consolidated Safety Valve Co., supra, 141 U. S. 441, 457-458.

Many earlier decisions of this Court to the same effect are cited in these opinions. While several recognize that interest from an earlier date may be allowed in special circumstances, such as a willful and deliberate infringement or a delay in the accounting for which the defendant is responsible, **the rule is strictly enforced that in the absence of such special circumstances interest runs only from the date of liquidation.** Thus in *Mowry v. Whitney, supra,* a decree allowing interest from an earlier date was **reversed,** the court ruling (p. 653):

> "We add only that in our opinion the defendant should not have been charged with interest before the final decree. The profits which are recoverable against an infringer of a patent are in fact a compensation for the injury the patentee has sustained from the invasion of his right. They are the measure of his damages. Though called profits, **they are really damages, and unliquidated until the decree is made.** Interest is not generally allowable upon un-

liquidated damages. We will not say that in no possible case can interest be allowed. It is enough that the case in hand does not justify such an allowance." (black face type ours).

The ruling of this Court has been consistently followed by the various Circuit Courts of Appeals in many decisions that interest on an award measured by an infringer's profits may only be allowed from the liquidation of such profits by the report of a master or the decree of a court, such cases including among others:

Stromberg Motor Devices Co. v. Detroit Trust Co., supra, 44 F. (2d) 958, 966 (C. C. A., 7th Cir.);

Metallic Rubber Tire Co. v. Hartford Rubber Works Co., supra, 275 F. 315, 324-326 (C. C. A., 2d Cir.).

Similarly the rulings of this Court on interest have been followed in cases where the award was based on a plaintiff's actual damages:

Rose v. Hirsch, 94 F. 177, 180 (C. C. A., 3rd Cir.);

[1]*National Folding-Box & Paper Co. v. Elsas,* 81 F. 197; affirmed 86 F. 917, 923 (C. C. A., 2nd Cir.).

Damages of the character ruled by the foregoing cases are obviously more nearly liquidated prior to their determination by the fact-finding body than are the "general damages" awarded in the instant case. One

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[1] Accord: *Auto Vacuum Freezer Co. v. Wm. A. Sexton Co.,* 250 F. 459, 469 (S. D., N. Y.); *Westinghouse v. New York Air Brake Co.,* 133 F. 936 (S. D., N. Y.).

would assume that the rule of this Court restricting interest to the period following the date of liquidation would be applied *a fortiori* to awards of general damages. It has been so decreed in awarding general damages measured by a reasonable royalty:

Dunkley Co. v. Vrooman, 272 F. 468, 469 (C. C. A., 6th Cir.).

Munger v. Perlman Rim Corp., 275 F. 21, 23 (C. C. A., 2nd Cir.); certiorari denied, 257 U. S., 645;

Dowagiac Mfg. Co. v. Deere & Webber Co., 284 F. 331, 350-351 (C. C. A., 8th Cir.);

Fox Typewriter Co. v. Underwood Typewriter Co., 287 F. 453, 455 (C. C. A., 6th Cir.);

The Circuit Court of Appeals in the instant case concedes that there are **"cases of equal authority both ways"** (R. 922), citing, however, three which have departed from the long-established rule. Each leans heavily on (1) circumstances indicating a willful and deliberate infringement, or (2) an unconscionable delay in the accounting for which the defendant is responsible. Such other rulings as may be cited to the same effect will be found to rest on equally peculiar circumstances or on an established royalty. This is necessarily so because, as Judge Taft remarked in *National Folding-Box & Paper Co. v. Dayton Paper-Novelty Co.,* 97 F. 331, 332, (S. D., Oh.), in reversing, on rehearing, a previous ruling of his own to the contrary.

> "an examination of all the cases in the Supreme Court shows the greatest reluctance on the part of that court to allow interest in a patent case before the master has liquidated the damages."

The Circuit Court of Appeals has ruled in the instant case that interest may be imposed for a period prior to the liquidation of general damages, although the

infringement was conducted in good faith and there is no charge of delay in connection with the accounting. It is said (R. 922) that the matter is one within the court's discretion, but it will be seen from the foregoing decisions that such discretion may be exercised only in the event of an infringement in bad faith, an unreasonable delay in accounting, or a comparable circumstance. The Circuit Court of Appeals' explanation (R. 922) that such an interest allowance was recommended by the Master is plainly erroneous, for the Master made no recommendation as to interest. The District Court acted (R. 878) on the authority of a case where the infringement had been in bad faith.

Respectfully submitted,

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APPENDIX.

Equitable compensation to a patent owner for infringement is governed by Revised Statutes § 4921, as amended by Act of March 3, 1897, c. 391, § 6, 29 Stat. 694; and Act of February 18, 1922, c. 58, § 8, 42 Stat. 392; 35 U. S. C., § 70, the applicable portions of which provide:

> ". . . upon a decree being rendered in any such a case for an infringement the complainant shall be entitled to recover, in addition to the profits to be accounted for by the defendant, the damages the complainant has sustained thereby, and the court shall assess the same or cause the same to be assessed under its direction. If on the proofs it shall appear that the complainant has suffered damage from the infringement or that the defendant has realized profits therefrom to which the complainant is justly entitled, but that such damages or profits are not susceptible of calculation and determination with reasonable certainty, the court may, on evidence tending to establish the same, in its discretion, receive opinion or expert testimony, which is hereby declared to be competent and admissible, subject to the general rules of evidence applicable to this character of testimony; and upon such evidence and all other evidence in the record the court may adjudge and decree the payment by the defendant to the complainant of a reasonable sum as profits or general damages for the infringement. The court shall have the same power to increase such damages, in its discretion, as is given to increase the damages found by verdicts in actions in the nature of actions of trespass upon the case."